



# THE PROMISE OF RURAL AMERICA

2013 ANNUAL REPORT



OUR MISSION, AS AN INTEGRAL MEMBER OF THE FARM CREDIT SYSTEM, IS TO SERVE AS A DEPENDABLE PROVIDER OF CREDIT AND OTHER VALUE-ADDED FINANCIAL SERVICES TO AGRICULTURE AND RURAL INFRASTRUCTURE BUSINESSES FOR THE BENEFIT OF RURAL AMERICA.

<b>For the Year</b> (\$ IN MILLIONS)	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net Interest Income	\$ 1,163	\$ 1,238	\$ 1,071
Provision for Loan Losses	—	70	58
Net Income	856	854	707
Patronage Distribution	415	425	341
<b>At Year End</b> (\$ IN MILLIONS)	<b>2013</b>	<b>2012</b>	<b>2011</b>
Agribusiness	\$ 21,182	\$ 21,394	\$ 18,869
Strategic Relationships	37,897	36,707	15,236
Rural Infrastructure	14,524	13,879	12,180
<b>Total Loans</b>	<b>73,603</b>	<b>71,980</b>	<b>46,285</b>
Allowance for Credit Losses	615	595	542
Total Assets	97,644	92,478	63,290
Total Shareholders' Equity	6,705	6,441	4,896
<b>Financial Ratios</b> FOR THE YEAR	<b>2013</b>	<b>2012</b>	<b>2011</b>
Return on Average Common Equity	14.40 %	15.16 %	16.05 %
Return on Average Assets	0.91	0.94	1.07
Return on Active Patron Investment	17.53	18.41	22.65
Net Interest Margin	1.26	1.41	1.69
Permanent Capital Ratio	16.72	16.14	16.37

\* Includes the impact of CoBank's merger with U.S. AgBank, which closed on January 1, 2012.



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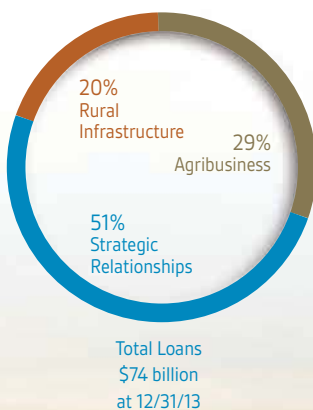
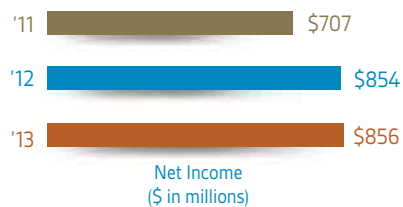
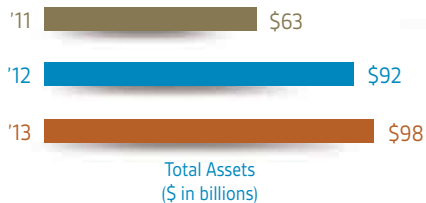
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## KEY METRICS



## TO OUR SHAREHOLDERS



Robert B. Engel | Everett M. Dobrinski  
Chief Executive Officer | Chairman

The year 2013 was one of significant transition for the overall U.S. economy. When the year began, economic growth was sluggish at best, and the national unemployment rate seemed to be stuck at close to 8 percent. Stock markets were recuperating from a late-year slump in 2012. Despite unprecedented levels of monetary stimulus from the U.S. Federal Reserve, substantial doubts remained about the country's ability to achieve a strong, self-sustaining economic recovery.

As 2013 ended, the economy finally felt as though it had turned a corner. Growth accelerated notably in the second half of the year, and unemployment had fallen to 6.7 percent by year-end. Equity and housing markets enjoyed strong run-ups throughout 2013, which helped buoy household net worth as well as the confidence of American consumers. Corporate profits had also increased markedly. The Fed began dialing back quantitative easing without provoking an immediate major negative reaction in the market.

While risks undoubtedly remain, the nation moves into 2014 with cause for greater economic optimism than at any time over the past several years.

For CoBank, 2013 was also a year of progress and success. The bank achieved its 14th consecutive year of growth in profitability, an accomplishment matched by few other major banks in the world. Other measures of business and financial performance were strong as well. Most importantly, we continued to fulfill our mission, providing our customers with the debt capital and other strategic financial services they needed to compete, succeed and grow in a market environment full of both challenge and opportunity.

We're pleased to present the bank's results to you in our 2013 annual report to shareholders. Our continuing success has been driven by the success of our customers, who have played an integral role in leading the U.S. economy out of the difficulties experienced over the past several years. We're enormously proud to



"THE BANK ACHIEVED ITS 14TH CONSECUTIVE YEAR OF GROWTH IN PROFITABILITY, AN ACCOMPLISHMENT MATCHED BY FEW OTHER MAJOR BANKS IN THE WORLD."

serve these customers, and of the role we play as a leading provider of credit to vital industries in rural America.

## 2013 FINANCIAL RESULTS

CoBank's average loan and lease volume increased approximately 2 percent in 2013, to \$71.9 billion. Growth was driven by higher levels of borrowing from affiliated Farm Credit associations and rural electric cooperatives, which more than offset a significant decline in seasonal lending to agribusiness co-ops. Demand for seasonal lines of credit decreased because of lower inventories, low commodity prices and strong cash positions at grain elevators around the country. Another important factor impacting all segments of our portfolio was intensified competition across the banking industry for the business of our customers. In that regard, we continue to benefit enormously from the breadth, depth and longevity of our customer relationships, and the bank's reputation for delivering value and a high-quality customer experience.

Net interest income declined by 6 percent in 2013, to \$1.2 billion. The decrease was driven primarily by the low interest rate environment engineered by the U.S. Federal Reserve, which impacted the bank's returns on invested capital, its balance sheet positioning and its portfolio of liquidity investments. In addition, the change in the mix of loans described above effectively lowered

our margins by increasing the proportion of higher-credit-quality, lower-yielding loans in our portfolio.

Despite lower net interest income, profitability for the year rose to a record \$856 million in 2013, from \$854 million the year before. The increase in earnings resulted primarily from the fact that we recorded no provision for loan losses in 2013, compared to \$70 million in loss provisions in 2012. That's a reflection of the favorable credit quality in our portfolio and the general strength of agriculture and other rural industries we finance.

Other measures of credit quality for CoBank remain exceptionally strong as well. At year-end, 0.71 percent of the bank's loans were classified as adverse assets, compared to 1.01 percent at December 31, 2012. Nonaccrual loans totaled \$147.8 million, compared to \$170.2 million the year before. The bank's allowance for credit losses totaled \$614.7 million at year-end—a solid source of protection for the bank and its capital base against loan losses in our portfolio. CoBank finished the year with \$6.7 billion of shareholders' equity, and our capital and liquidity levels remained well in excess of regulatory minimums.

As we move into 2014, we're very pleased with the overall financial condition of the bank and its ongoing ability to serve customers and fulfill its mission in rural America.





"COBANK PRIDES ITSELF ON THE FACT THAT  
IT RETURNS SUBSTANTIAL VALUE TO ITS CUSTOMERS  
THROUGH ANNUAL PATRONAGE DISTRIBUTIONS."

## PATRONAGE

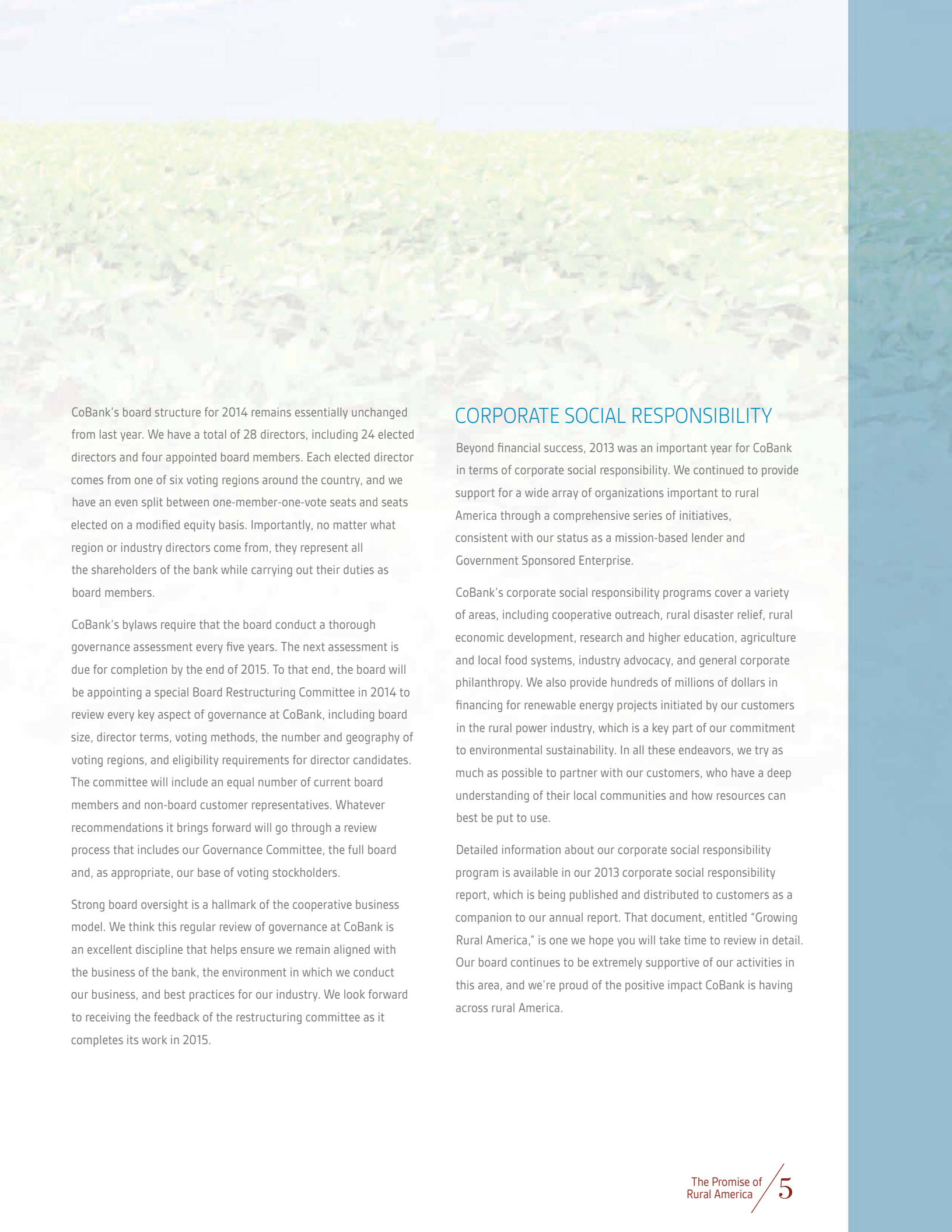
As a cooperatively organized institution, CoBank prides itself on the fact that it returns substantial value to its customers through annual patronage distributions. Under our formula-based patronage program, cooperatives and other eligible borrowers receive 100 basis points of their average qualifying loan balance from the bank; 75 percent of which is paid in cash. The remaining 25 percent is distributed in equity, providing customers with an ownership stake in the bank and a say in the governance of the business. Meanwhile, affiliated Farm Credit associations receive 45 basis points in cash patronage under a separate capital plan.

Patronage payouts for 2013 will total approximately \$415 million—just under half of the bank's earnings for the year. The remaining net income, after payment of preferred stock dividends, is preserved as unallocated retained earnings and used to build the capital base and lending capacity of the bank. Over the past 10 years, CoBank patronage distributions to customers throughout rural America have exceeded \$2.8 billion—funds that have supported the growth of our customers' businesses and, indirectly, the health and vitality of the rural communities they operate in.

Patronage is a unique and enduring feature of the cooperative model. The members of our board—the vast majority of whom have direct experience with other cooperatives in rural America—fully understand the value of dependable patronage, which is why they have supported repeated enhancements to our patronage program over the past decade. We're delighted with the level of patronage we're delivering this year, and we trust our customers also appreciate this important benefit of doing business with a bank that they own.

## GOVERNANCE

A great many factors contribute to CoBank's success, including our wonderful base of customers, membership in the Farm Credit System, and a workforce of engaged, knowledgeable, experienced employees. But none is more important than our board. The vast majority of our directors are actively engaged in the business of production agriculture, agribusiness or rural infrastructure, and all have a profound appreciation for CoBank's mission and the role we play in supporting rural America. Their leadership, guidance and commitment have been essential to our progress, and will continue to be in the years ahead.



CoBank's board structure for 2014 remains essentially unchanged from last year. We have a total of 28 directors, including 24 elected directors and four appointed board members. Each elected director comes from one of six voting regions around the country, and we have an even split between one-member-one-vote seats and seats elected on a modified equity basis. Importantly, no matter what region or industry directors come from, they represent all the shareholders of the bank while carrying out their duties as board members.

CoBank's bylaws require that the board conduct a thorough governance assessment every five years. The next assessment is due for completion by the end of 2015. To that end, the board will be appointing a special Board Restructuring Committee in 2014 to review every key aspect of governance at CoBank, including board size, director terms, voting methods, the number and geography of voting regions, and eligibility requirements for director candidates. The committee will include an equal number of current board members and non-board customer representatives. Whatever recommendations it brings forward will go through a review process that includes our Governance Committee, the full board and, as appropriate, our base of voting stockholders.


Strong board oversight is a hallmark of the cooperative business model. We think this regular review of governance at CoBank is an excellent discipline that helps ensure we remain aligned with the business of the bank, the environment in which we conduct our business, and best practices for our industry. We look forward to receiving the feedback of the restructuring committee as it completes its work in 2015.

## CORPORATE SOCIAL RESPONSIBILITY

Beyond financial success, 2013 was an important year for CoBank in terms of corporate social responsibility. We continued to provide support for a wide array of organizations important to rural America through a comprehensive series of initiatives, consistent with our status as a mission-based lender and Government Sponsored Enterprise.

CoBank's corporate social responsibility programs cover a variety of areas, including cooperative outreach, rural disaster relief, rural economic development, research and higher education, agriculture and local food systems, industry advocacy, and general corporate philanthropy. We also provide hundreds of millions of dollars in financing for renewable energy projects initiated by our customers in the rural power industry, which is a key part of our commitment to environmental sustainability. In all these endeavors, we try as much as possible to partner with our customers, who have a deep understanding of their local communities and how resources can best be put to use.

Detailed information about our corporate social responsibility program is available in our 2013 corporate social responsibility report, which is being published and distributed to customers as a companion to our annual report. That document, entitled "Growing Rural America," is one we hope you will take time to review in detail. Our board continues to be extremely supportive of our activities in this area, and we're proud of the positive impact CoBank is having across rural America.



"OUR PROMISE TO ALL OUR CUSTOMERS IS TO SERVE AS THEIR TRUSTED FINANCIAL PARTNER AND DELIVER TO THEM THE CREDIT AND FINANCIAL SERVICES THEY NEED TO THRIVE AND GROW."

## COBANK'S 25-YEAR ANNIVERSARY

The beginning of 2014 marks our 25th year as "CoBank." The bank was formed on January 1, 1989, through a merger of 11 separate Banks for Cooperatives that had operated independently since being established through the Farm Credit Act of 1933. Under its new name, CoBank was chartered to finance a national base of customers that included agricultural co-ops and rural infrastructure providers throughout the United States. It had approximately \$12 billion in assets on its first day of operation.

A great deal has changed in the quarter-century since then. Thanks to strong, steady growth, the bank now has almost \$100 billion in total assets, making it one of the largest commercial and industrial lenders in the country. It employs over 800 people. A series of subsequent mergers has also broadened the bank's charter. In addition to direct borrowers in the food, water, power and communications industries, CoBank now acts as a funding bank for 27 affiliated Farm Credit associations operating in 23 states. Those associations in turn serve more than 70,000 farmers and ranchers across a diverse range of agricultural sectors. Through organic and merger-driven growth, CoBank today is one of the single largest providers of credit to the U.S. rural economy.

But more important than what has changed since 1989 are the things that have stayed the same. Our core mission—providing

dependable credit to rural America—remains unaltered. We continue to derive enormous benefits from our cooperative structure, including leadership from an outstanding board of directors drawn from the industries we serve. Membership in the Farm Credit System remains a key part of our value proposition, providing us with strong access to capital and the capacity to meet the borrowing needs of our customers. And we have never abandoned our business model as a traditional relationship lender, with a commitment to know more and care more about our customers than any other financial services provider.

We're extremely proud of what CoBank has accomplished over the past 25 years, and we look forward to the next quarter-century of growth and success.

## "THE PROMISE OF RURAL AMERICA"

The theme of our annual report this year is "The Promise of Rural America." Those words are designed to reflect the enormous promise and potential we believe the future holds for our customers and rural America as a whole. American farmers, ranchers and cooperatives have established a solid leadership position in the global marketplace as the world's premier providers of high-quality food and fiber. Meanwhile, rural infrastructure providers deliver the power, water and communications services that agriculture relies



on to be successful, and that people in rural communities need in order to enjoy a high quality of life.

The pages that follow this letter contain profiles of a selection of cooperatives and other customers from CoBank's customer base, and we hope you take the time to read about these innovative and forward-thinking business organizations. Although they operate in different industries and markets, all are focused on creating value for their customers, building market share and positioning themselves for long-term future success.

What they also have in common is a strong partnership with CoBank. Our promise to them, as with all our customers, is to serve as their trusted financial partner and deliver to them the credit and financial services they need to thrive and grow.

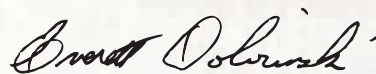
## BUSINESS OUTLOOK

Despite recent improvements in the economy, there remain a number of "tail risks" that businesses need to be mindful of as they look ahead. One key question is how the U.S. economy will react as the Fed unwinds a balance sheet that has ballooned to over \$4 trillion in the past five years. Emerging markets are another source of uncertainty, where a combination of slower growth and fragile political systems in many countries offers plenty of downside potential in the year ahead. Europe, Japan and other advanced economies outside the U.S. continue to struggle with low growth, poor demographics and public policy uncertainty.

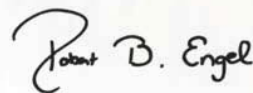
At CoBank, our board and executive management team will remain focused on continuing the steady business performance the bank has enjoyed throughout the financial crisis and its aftermath.

And we are as optimistic as ever about the long-term prospects for the industries we serve and CoBank's ability to fulfill its mission in rural America.

As always, we remain mindful of the enormous trust our customers place in CoBank as their financial partner. We thank you for your ongoing support and look forward to reporting back to you on our future progress.



Everett M. Dobrinski  
Chairman



Robert B. Engel  
Chief Executive Officer



“STRONG BOARD  
OVERSIGHT IS A  
HALLMARK OF  
THE COOPERATIVE  
BUSINESS MODEL.”

Everett M. Dobrinski  
CoBank Chairman



## 2014 BOARD OF DIRECTORS

Pictured from top to bottom  
left to right

### EVERETT M. DOBRINSKI

Chairman  
Occupation:  
Farming  
Hometown:  
Mankato, ND

### DANIEL T. KELLEY

1st Vice Chairman  
Occupation:  
Farming  
Hometown:  
Normal, IL

### TONY DEGIUSTI

2nd Vice Chairman  
Occupation:  
Farming and  
ranching  
Hometown:  
Tulsa, OK

### ROBERT M. BEHR

Occupation:  
Agribusiness  
cooperative  
management  
Hometown:  
Lakeland, FL

### ROBERT W. BRAY

Occupation:  
Farming and  
ranching  
Hometown:  
Redvale, CO

### WILLIAM M. FARROW, III

Occupation:  
Banking  
Hometown:  
Chicago, IL

### BENJAMIN J. FREUND

Occupation:  
Dairy farmer  
Hometown:  
East Canaan, CT



### MARY E. FRITZ

Occupation:  
Farming and  
ranching  
Hometown:  
Chester, MT

### J. "LESS" GUTHRIE

Occupation:  
Farming and  
ranching  
Hometown:  
Porterville, CA

### WILLIAM H. HARRIS

Occupation:  
Farming  
Hometown:  
LeRoy, NY

### RICK JACOBSON

Occupation:  
Agribusiness  
cooperative  
management  
Hometown:  
Bend, OR

### JAMES A. KINSEY

Occupation:  
Livestock  
Hometown:  
Flemington, WV



### DAVID J. KRAGNES

Occupation:  
Farming  
Hometown:  
Fulton, MN

### JIM MAGNUSON

Occupation:  
Agribusiness  
cooperative  
management  
Hometown:  
Sully, IA



**JON E. MARTHEDAL**

Occupation:  
Farming

Hometown:  
Fresno, CA



**GARY A. MILLER**

Occupation:  
Electric cooperative  
management

Hometown:  
Douglasville, GA

**CATHERINE MOYER**

Occupation:  
Rural  
communications  
management

Hometown:  
Ulysses, KS

**ALARIK MYRIN**

Occupation:  
Farming and  
ranching

Hometown:  
Alamogordo, UT



**DAVID S. PHIPPEN**

Occupation:  
Farming

Hometown:  
Ripon, CA

**RONALD J. RAHJES**

Occupation:  
Farming

Hometown:  
Kensington, KS



**DAVID L. REINDERS**

Occupation:  
Agribusiness  
cooperative  
management

Hometown:  
Sunray, TX

**KEVIN G. RIEL**

Occupation:  
Farming

Hometown:  
Yakima, WA



**CLINT E. ROUSH**

Occupation:  
Farming and  
livestock

Hometown:  
Arapahoe, OK

**BARRY M. SABLOFF**

Occupation:  
Retired, commercial  
banking

Hometown:  
Chicago, IL

**STEPHANIE  
HERSETH  
SANDLIN**

Occupation:  
Attorney

Hometown:  
Sioux Falls, SD



**RICHARD W. SITMAN**

Occupation:  
Retail services

Hometown:  
Kentwood, LA

**KEVIN A. STILL**

Occupation:  
Agribusiness  
cooperative  
management

Hometown:  
Danville, IN

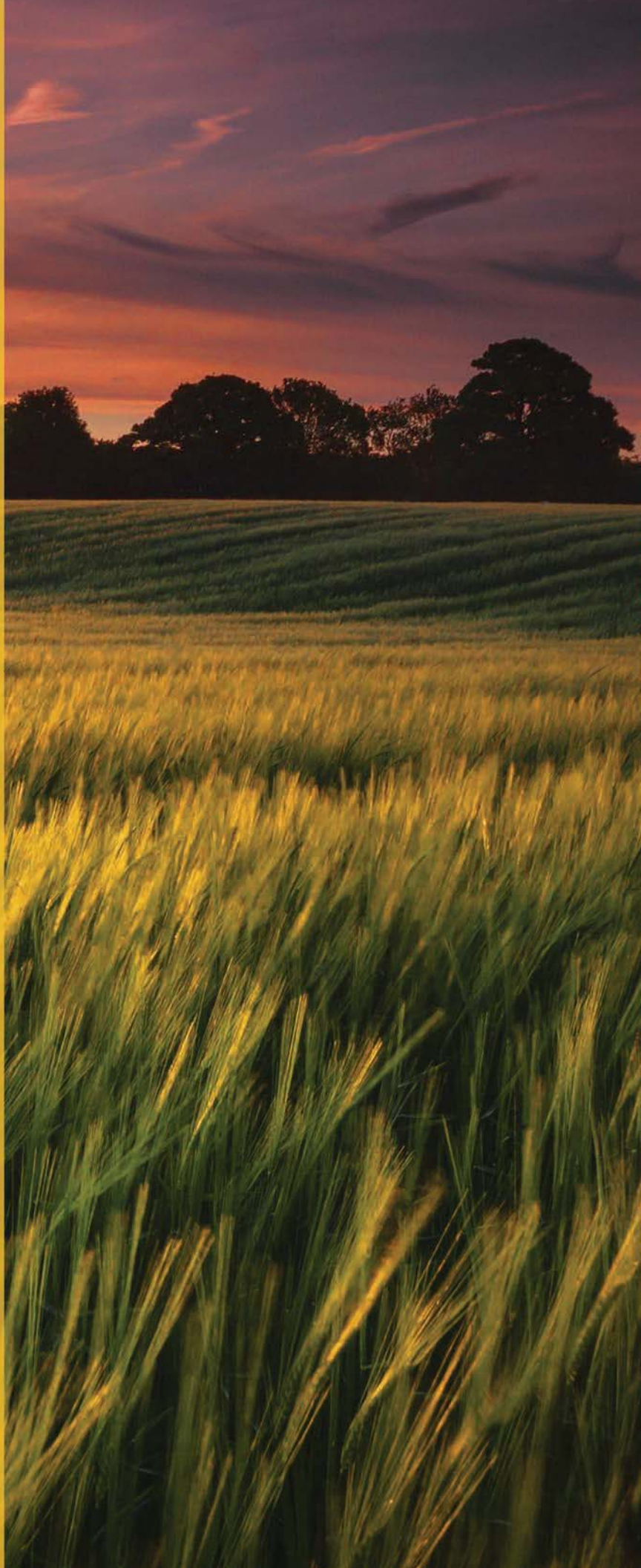


**SCOTT H. WHITTINGTON**

Occupation:  
Electric  
cooperative  
management

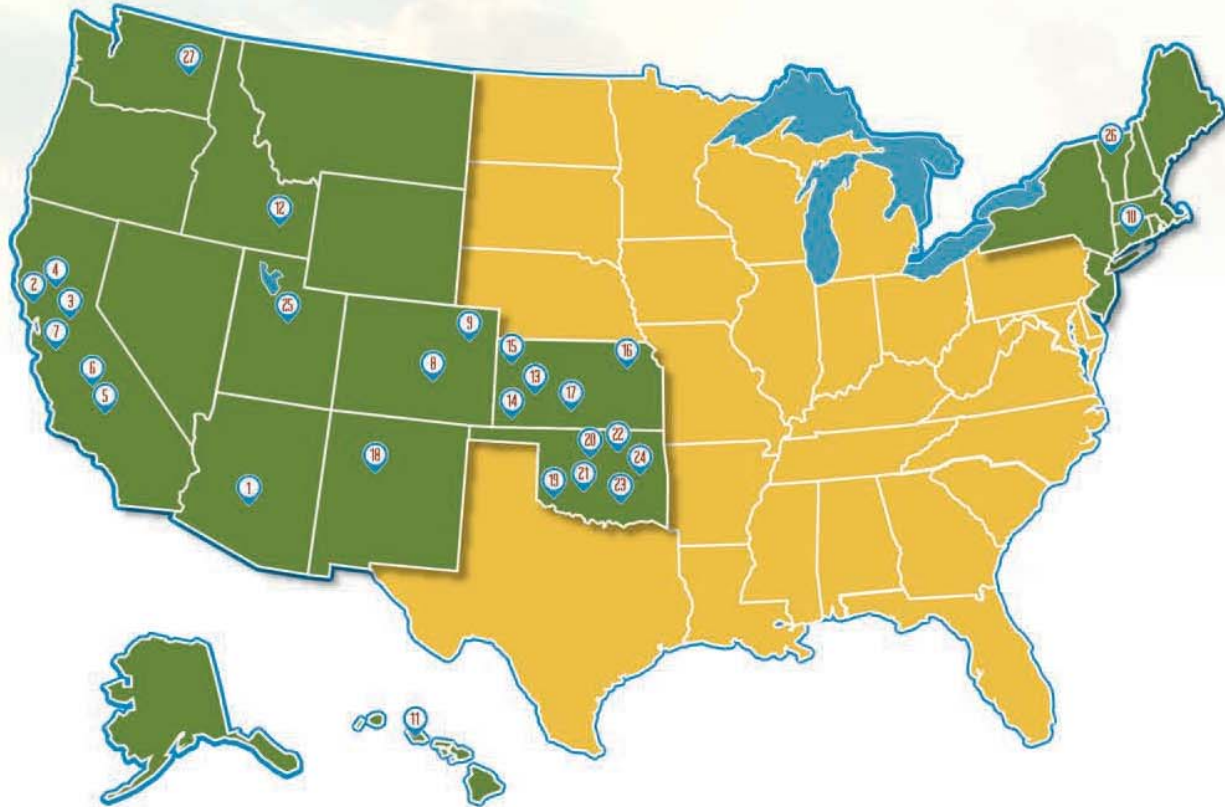
Hometown:  
Burlington, KS

## BOARD OF DIRECTORS





# COBANK'S AFFILIATED FARM CREDIT ASSOCIATIONS



## ARIZONA

- 1** FCS Southwest  
TEMPE

## CALIFORNIA

- 2** American AgCredit  
SANTA ROSA
- 3** Farm Credit West  
ROSEVILLE
- 4** FCS of Colusa-Glenn  
COLUSA
- 5** Fresno Madera Farm Credit  
FRESNO
- 6** Golden State Farm Credit\*  
KINGSBURG
- 7** Yosemite Farm Credit  
TURLOCK

## COLORADO

- 8** FC of Southern Colorado  
COLORADO SPRINGS
- 9** Premier Farm Credit  
STERLING

## CONNECTICUT

- 10** Farm Credit East\*\*  
ENFIELD

## HAWAII

- 11** FCS of Hawaii  
HONOLULU

## IDAHO

- 12** Idaho, ACA  
BLACKFOOT

## KANSAS

- 13** FC of Ness City  
NESS CITY
- 14** FC of Southwest Kansas  
GARDEN CITY
- 15** FC of Western Kansas  
COLBY
- 16** Frontier Farm Credit  
MANHATTAN
- 17** High Plains Farm Credit  
LARNED

## NEW MEXICO

- 18** FC of New Mexico  
ALBUQUERQUE

## OKLAHOMA

- 19** AgPreference  
ALTUS
- 20** Chisholm Trail Farm Credit  
ENID
- 21** FC of Central Oklahoma  
ANADARKO
- 22** FC of Enid  
ENID
- 23** FC of Western Oklahoma  
WOODWARD
- 24** FCS of East Central Oklahoma  
BROKEN ARROW

## UTAH

- 25** Western AgCredit  
SOUTH JORDAN

## VERMONT

- 26** Yankee Farm Credit  
WILLISTON

## WASHINGTON

- 27** Northwest Farm Credit Services  
SPOKANE

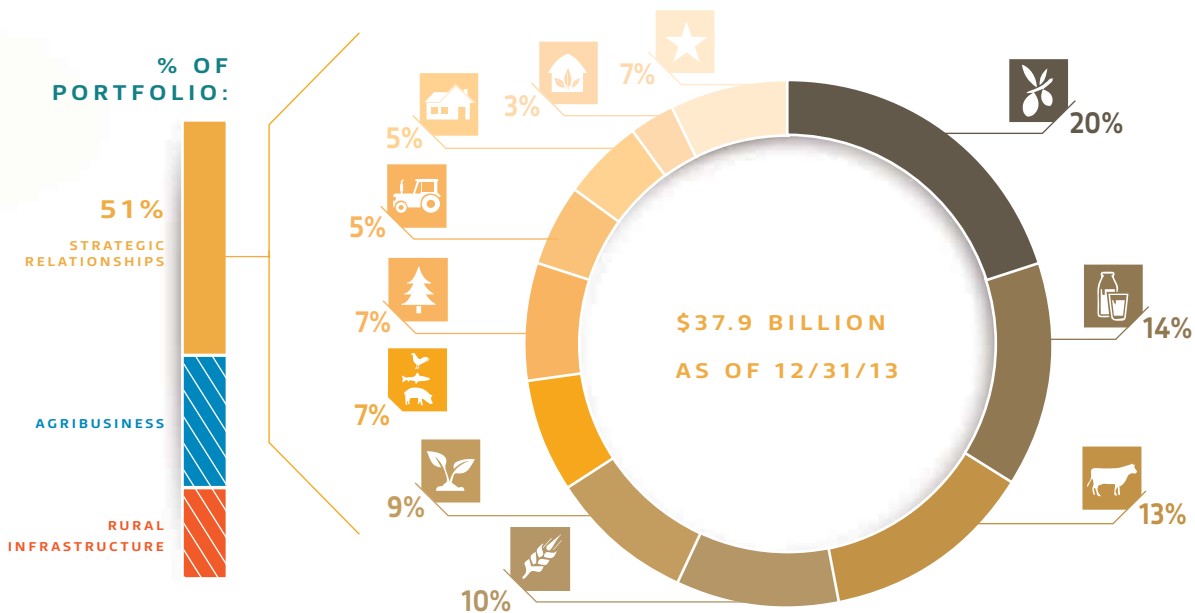
\* Formed through the merger of Northern California Farm Credit and Kingsburg Land Bank on 1/1/14.

\*\* Farm Credit East merged with Farm Credit of Maine on 1/1/14.



# STRATEGIC RELATIONSHIPS PORTFOLIO

## STRATEGIC RELATIONSHIPS



### FOR THE YEAR

(\$ IN MILLIONS)

	2013	2012	2011
Period-End Loans	\$ 37,897	\$ 36,707	\$ 15,236
Average Loans	36,565	34,976	15,215
Net Income	255	246	81

In addition to providing loans to retail customers and cooperatives in all 50 states, CoBank serves as a funding bank for 27 affiliated Farm Credit associations across the country. Those associations provide loans and financial services to approximately 70,000 farmers, ranchers and other rural borrowers in 23 states. They serve a diverse array of industries, from fruits, nuts and vegetables to grains and other row crops to dairy, beef, poultry and forest products.

CoBank provides these association customers with wholesale financing as well as other value-added products and services. In turn, the associations provide the bank with added lending capacity by serving as participation partners on large credit transactions.

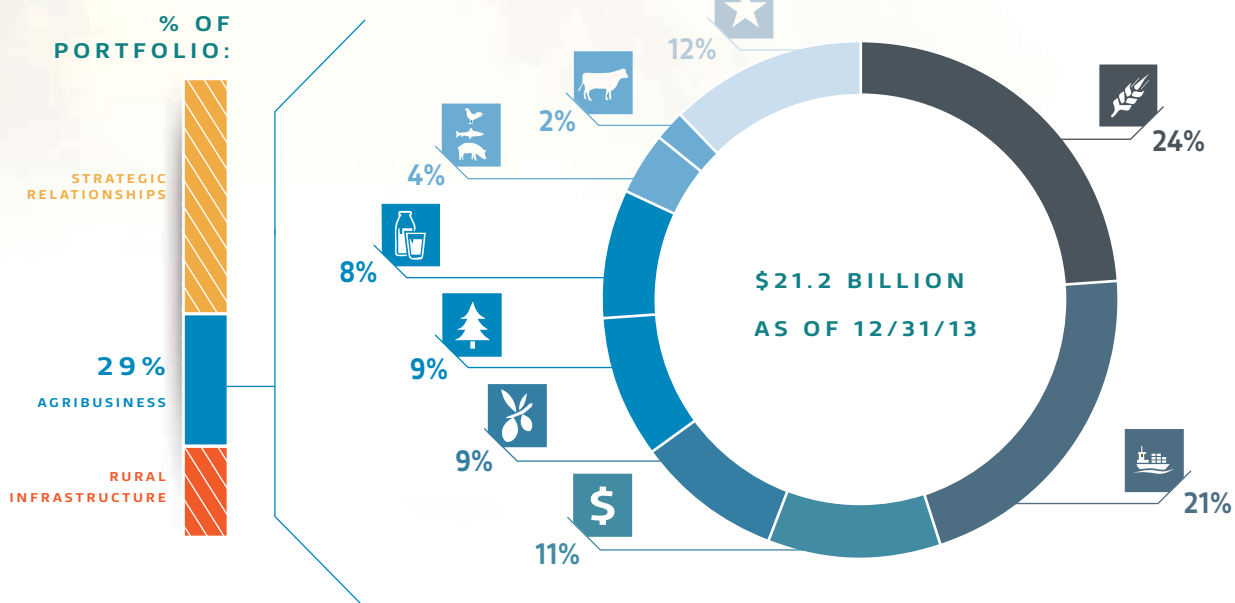
CoBank also serves as a partner of choice for a number of nonaffiliated Farm Credit associations throughout the country on loan participations and syndications, leasing, and other non-credit services.

Average loan volume in the Strategic Relationships portfolio was \$36.6 billion in 2013.










### PIE CHART KEY:

- Fruits, Nuts, Vegetables
- Dairy
- Cattle
- Grain
- Field Crops Excluding Grain
- Fish, Livestock, Poultry
- Forest Products
- Farm-Related Business
- Rural Home
- Nursery, Greenhouse
- Other

## AGRIBUSINESS PORTFOLIO



### PIE CHART KEY:

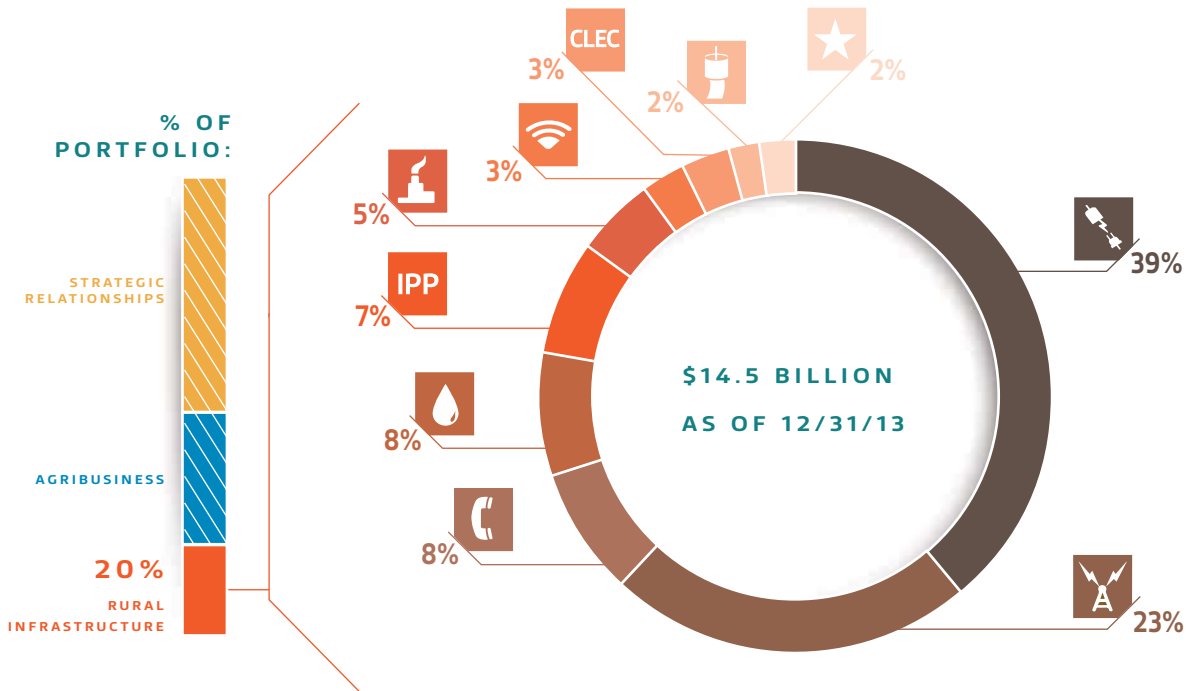
-  Farm Supply, Grain & Marketing
-  Ag Export Finance
-  Lease Financing
-  Fruits, Nuts, Vegetables
-  Forest Products
-  Dairy
-  Fish, Livestock, Poultry
-  Cattle
-  Other

### FOR THE YEAR (\$ IN MILLIONS)

	2013	2012	2011
Period-End Loans	\$ 21,182	\$ 21,394	\$ 18,869
Average Loans	21,077	22,209	23,104
Net Income	380	410	438

CoBank's Agribusiness operating segment includes the Regional Agribusiness Banking Group, Corporate Agribusiness Banking Group, Agricultural Export Finance Division and Banking Services Group, which includes Farm Credit Leasing. It serves cooperatives and other customers involved in a wide variety of industries, including grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Average loan volume in the Agribusiness portfolio was \$21.1 billion in 2013.

## RURAL INFRASTRUCTURE PORTFOLIO



RURAL INFRASTRUCTURE

### FOR THE YEAR (\$ IN MILLIONS)

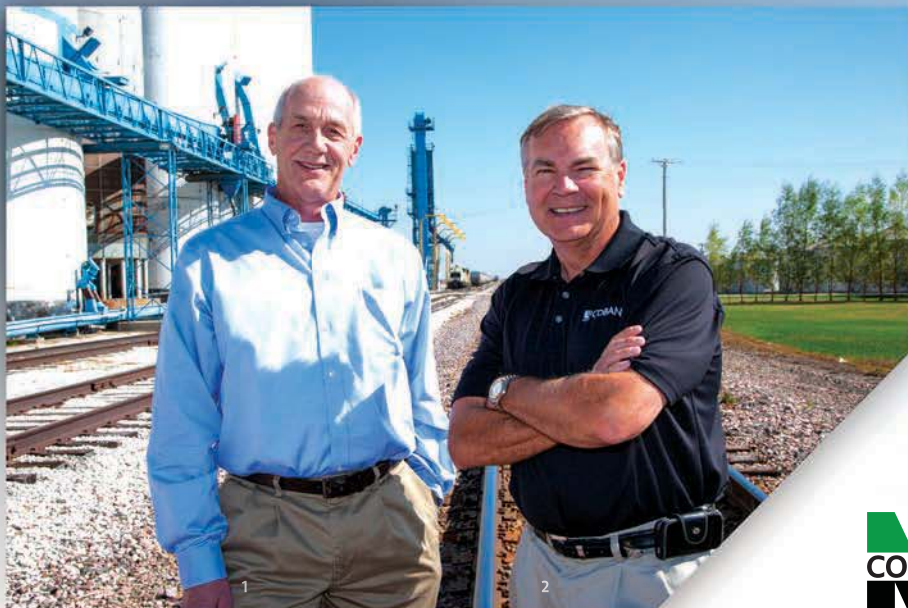
	2013	2012	2011
Period-End Loans	\$ 14,524	\$ 13,879	\$ 12,180
Average Loans	14,215	13,086	11,880
Net Income	230	208	194

CoBank's Rural Infrastructure operating segment includes the following banking divisions: Electric Distribution and Water Services; Power, Energy and Utilities; and Communications. It serves rural utilities and other customers across a wide variety of industries, including electric generation, transmission and distribution cooperatives; water and wastewater companies; and wireline, cable and wireless communications services providers. Average loan volume in CoBank's Rural Infrastructure portfolio was \$14.2 billion in 2013.

### PIE CHART KEY:

- Electric Distribution
- Generation & Transmission
- Local Exchange Carriers
- Water
- Independent Power Producers
- Regulated Utilities
- Wireless
- Competitive Local Exchange Carrier
- Cable
- Other





1 Brent Bunte  
General Manager,  
NEW Cooperative

2 Bert Johnson  
Relationship Manager,  
CoBank



"WE APPRECIATE COBANK'S KNOWLEDGE OF OUR BUSINESS. WE DON'T WANT TO HAVE TO TRAIN OUR LENDER ON WHAT WE DO AND COBANK HAS ALWAYS BEEN GOOD ABOUT THAT."

Based in Fort Dodge, Iowa, NEW Cooperative, Inc. is a farmer-owned co-op with 22 operating locations. With 295 full-time employees, NEW offers grain marketing and storage services, feed, fertilizer, crop protection and seed resources. In a typical year, NEW will handle more than 75 million bushels of grain. It has the capacity to produce 700,000 tons of quality feed products and market 150,000 tons of fertilizer.

NEW General Manager Brent Bunte, who has been with the organization for more than 30 years, attributes NEW's success to its intense focus on the customer.

"Our goal is to figure out what our customers want before they know they want it," said Bunte. That anticipation of its customers' needs has led NEW to invest significantly in its facilities and railway assets. In fact, out of 65 million bushels of grain storage capacity, more than 20 million have been added in the past 10 years.

This focus on investment means that NEW has a true appreciation for the value of a dependable lender.

"When visiting with our relationship manager or CoBank leadership, they always ask what they can do for us," said Bunte. "I tell them 'just be there when we need you.' And they always have been. CoBank has been a reliable and consistent financial partner from the beginning."

"We also appreciate CoBank's knowledge of our business," continued Bunte. "We don't want to have to train our lender on what we do and CoBank has always been good about that. They try to provide us with the same level of service we provide to our customers—anticipating our needs so they can continue to be there when we need them."



1 Mark Ogletree  
Chief Financial Officer,  
GreenPoint Ag

2 Bruce Schadrack  
Treasurer,  
GreenPoint Ag

3 Alan Hack  
Relationship Manager,  
CoBank

4 Tim Witcher  
President and CEO,  
GreenPoint Ag

## "OUR GOAL IS TO PROVIDE OUR CUSTOMERS WITH THE BEST SOLUTIONS TO HELP THEM BE EVEN MORE SUCCESSFUL."

GreenPoint Ag was formed in late 2012 to provide a full range of agronomy services to farmers across the mid-South, from seed, fertilizer and crop protection products to soil sampling and customized application.

The company has 45 retail locations in five states. GreenPoint serves an estimated 6,000 producers growing corn, cotton, soybeans, rice and peanuts.

"Our goal is to provide our customers with the best solutions to help them be even more successful," said Tim Witcher, GreenPoint Ag's president and CEO. "We're uniquely positioned now to do that, and to also grow our business just as our growers are increasingly looking to help feed a growing world."

Headquartered in Memphis, Tennessee, GreenPoint was formed by two longtime CoBank customers—Tennessee Farmers Cooperative and Land O' Lakes subsidiary Winfield Solutions, LLC. The organization knew it needed a reliable banking partner that not only understood the cyclical nature of agriculture, but also could serve as a trusted advisor for their business.

"We really consider CoBank to be more of a partner than just a bank," Witcher said. "Until GreenPoint was formed, we didn't have to deal with banks—our parent companies did all of that. CoBank has really helped us along the way."

As a new venture, GreenPoint's leaders had to take on new business functions, such as cash management. That's where the relationship with CoBank really began to pay dividends.

"It's good to have a partner that understands us," Witcher said.

CoBank provided GreenPoint an initial \$115 million credit facility, which was used in part to buy inventory, along with a \$25 million, 10-year term loan.

"GreenPoint is in a relationship-building business, just like CoBank, which is one of the reasons the relationship works," said Amy Gales, executive vice president of CoBank's Regional Agribusiness Banking Group. "They're focused on helping their growers produce the highest possible yields, and we're proud to play a role in helping them to do that."





1 Mike Popowycz

Vice Chairman and CFO,  
Case Farms

2 Al Schuler

Relationship Manager,  
CoBank

3 Tom Shelton

Chairman and CEO,  
Case Farms

4 Kevin Phillips

President and COO,  
Case Farms



The Chicken of Choice.

"WE'RE A GROWING COMPANY. WE NOW HAVE 475 GROWER FARMS AND MORE THAN 3,200 EMPLOYEES WHO BELIEVE IN OUR COMMITMENT TO QUALITY. BUT WE NEEDED HELP TO FINANCE THAT GROWTH."

Back in 1986, during its first year of operation, Case Farms was a small regional poultry operation with one hatchery, one processing plant and one distribution facility in northeastern Ohio.

Today, Case Farms is one of the nation's leading poultry businesses. The company processes 2.6 million birds each week and produces more than 850 million pounds of fresh, partially cooked and frozen-for-export poultry products each year. The chicken that leaves its plants in North Carolina and Ohio is used for various purposes. It might become one of the brand-name products consumed by Americans each day, or it might be shipped overseas or turned into ready-to-cook breaded items sold under the Case Farms name.

"We're committed to offering quality products, from the farm all the way to your plate," said Mike Popowycz, chief financial officer for Case. "We're a growing company. We now have 475 grower farms and more than 3,200 employees who believe in that commitment to quality. But we needed help to finance that growth."

Case asked CoBank to serve as a lead arranger on a \$140 million revolving credit facility that was syndicated exclusively to the Farm Credit System. The money was used to purchase working capital assets, such as grain and feed for chickens.

"We were looking for a good strategic partner who would understand the cyclicity of the poultry business," said Popowycz, who has been with Case Farms since its inception and has worked with several other banks.

"Too often, traditional banks get spooked by an industry downturn. CoBank and the Farm Credit teams they pulled together have a good understanding of our business, and of agriculture in general. They've been more like business advisors to us. They know when you go through tough times that things will turn around."





**1 Lee Tae-Woong**

Deputy General Manager,  
Foreign Purchasing  
Department,  
NongHyup Feed, Inc.

**2 Manny Fernandez**

Chief Representative,  
CoBank Singapore

**3 Jang Joo-Hoon**

Clerk,  
Foreign Purchasing  
Department,  
NongHyup Feed, Inc.

**4 Yang Kyung-Soo**

Clerk,  
Foreign Purchasing  
Department,  
NongHyup Feed, Inc.

**5 Lee Yang-Gu**

General Manager,  
Foreign Purchasing  
Department,  
NongHyup Feed, Inc.

**6 Na Soo-Min**

Deputy General Manager,  
Foreign Purchasing  
Department,  
NongHyup Feed, Inc.



**1 Lee Chang-Hyun**

General Manager,  
International Banking  
Department,  
NongHyup Bank

**2 Manny Fernandez**

Chief Representative,  
CoBank Singapore

**3 Chung Suk-Jin**

Senior Relationship Manager,  
International Banking  
Department,  
NongHyup Bank

**4 Lee Hyo-Sik**

Deputy General Manager,  
International Banking  
Department,  
NongHyup Bank

"THE COMMON ROLE BOTH COBANK AND NONGHYUP BANK PLAY IN SUPPORT OF AGRICULTURE IN THE U.S. AND KOREA MAKES THIS LONG-STANDING RELATIONSHIP SO UNIQUE AND SUCCESSFUL."

Korea has become the fifth-largest market in the world for U.S. agricultural products with more than \$35 billion in imports since 2008. Most of the imports are grain and feed for the protein sector since the country imports 97 percent of its feed ingredients.

Many of those transactions are made possible by a unique relationship dating back more than three decades between CoBank, NongHyup Bank and NongHyup Feed Inc., or NOFI.

NongHyup Bank, formerly known as National Agricultural Cooperative Federation, was established by the Korean government in 1961 to help improve the economic and social status of member cooperatives and farmers. It is the primary relationship bank for many of Korea's largest agribusiness companies and is owned by almost 1,200 livestock, agricultural and commodity cooperatives, which are in turn owned by some 3.3 million member farmers. It also remains the sole banker to NOFI, which is the largest feed

mill in Korea and accounts for more than one-third of the country's total feed grain imports.

Since 2005, CoBank has processed letters of credit issued by NongHyup Bank totaling more than \$4.6 billion and has financed approximately 90 percent of that volume. All of the letters of credit financed shipments of U.S. grains and other ag products to important buyers in Korea. NOFI imported most of the grain.

"We handle more business from NongHyup Bank than from any other financial institution in the world, by far," said Jonathan Logan, executive vice president with CoBank's Corporate Agribusiness Banking Group. "The common role both CoBank and NongHyup Bank play in support of agriculture in the U.S. and Korea makes this long-standing relationship so unique and successful."

1 **Damali Clark**

Controller,  
Coast EPA

2 **Bob Occhi**

President and CEO,  
Coast EPA

3 **John Holston**

Vice President  
of Financial and  
Administrative Services,  
Coast EPA

4 **Doran Dennis**

Relationship Manager,  
CoBank



“COBANK HAS INTRODUCED US TO REFINANCING OPPORTUNITIES WE NEVER KNEW EXISTED, AND IT HAS RESULTED IN MILLIONS IN SAVINGS.”

Like the customers they serve, Coast Electric knows a thing or two about survival. Based in Kiln, Mississippi, this member-owned electric cooperative recently celebrated its 75th anniversary. But not so long ago, it was facing more than \$100 million in damage and the loss of 15,000 customers whose homes and businesses were destroyed by Hurricane Katrina. Every customer of the cooperative experienced a power outage during the devastating 2005 hurricane and its aftermath.

“We were one of the fastest-growing co-ops in this area,” said Coast Electric’s president and chief executive officer, Bob Occhi. “But we took a direct hit from Katrina, one of the worst storms to hit the United States, and followed that up with a recession. Still, we survived and came back stronger thanks to our employees and our customers.”

Coast Electric became a CoBank customer in 2007 with a \$35.5 million loan to help finance the rebuilding of their electric

system following Hurricane Katrina. Since then, the co-op has used CoBank to refinance several higher interest rate Rural Utilities Service loans from the U.S. Department of Agriculture and to lease its large vehicles.

“CoBank has introduced us to refinancing opportunities we never knew existed, and it has resulted in millions in savings,” Occhi said.

In addition, Coast Electric has taken advantage of CoBank’s Sharing Success program to invest in the future of its community. In the program’s first year in 2012, the cooperative used the matching program to support a local community college. In 2013, it made a contribution to a fund managed by the statewide rural electric association that provides scholarships to the children of cooperative employees and assists employees’ families following a death or natural disaster.

Said Occhi: “We appreciate CoBank’s partnership in these efforts to improve our community.”





1 Bryan Ervin  
Relationship Manager,  
CoBank

2 David C. Benoit  
CFO,  
Connecticut Water

3 Eric Thornburg  
Chairman, President & CEO,  
Connecticut Water

## "ACCESS TO RELIABLE AND SAFE WATER IS ESSENTIAL TO THE QUALITY OF LIFE IN RURAL AMERICA."

For most water utilities, aging infrastructure is a huge, ongoing challenge. Especially in the Northeast, it's not uncommon to have pipes more than 75 years old pumping water to homes and businesses. Keeping those water systems up to the highest standards requires ongoing capital investment.

Connecticut Water knows that story all too well. The utility serves about 300,000 people in 56 towns across Connecticut, and some of the systems it owns date back to 1849. Since 2007, Connecticut Water has replaced more than 62 miles of pipe with an average age of 74 years.

CoBank first provided a line of credit to Connecticut Water in 2009, and then provided financing in 2012 for the acquisition of water systems in Maine serving 100,000 people in 21 towns. CoBank also refinanced some of Connecticut Water's long-term debt and lends directly to its two Maine water subsidiaries.

"We have more than 400,000 people in two states who rely on us for dependable, clean water," said Eric Thornburg, the company's chairman, president and CEO.

"We're committed to making Connecticut Water a trusted brand and providing the best possible service—and water—to the people we serve. That means we need to invest in our infrastructure."

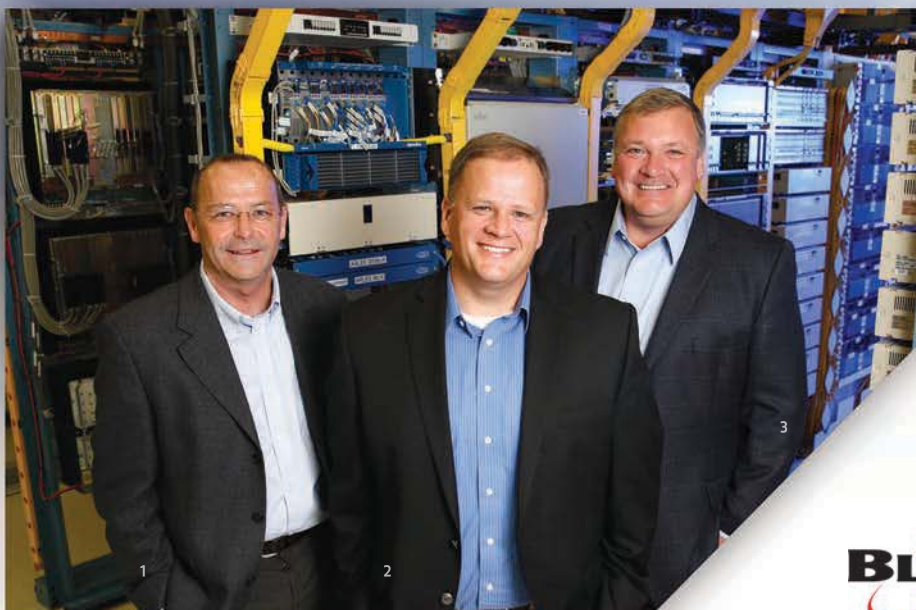
In 2013, Hurricane Sandy impacted parts of the company's service area, but dedicated staff worked around the clock to minimize outages. As a result, only a few hundred customers lost service, and it was for less than 24 hours.

"Access to reliable and safe water is essential to the quality of life in rural America, so we're proud to be able to help companies such as Connecticut Water better serve their customers," said Paul Narduzzo, senior vice president of CoBank's Electric Distribution and Water Services Banking Division.

"CoBank understands our business and what we're trying to do," Thornburg said. "That is so important to us. They understand we're building for the future."







### 1 Ted Otis

Chief Financial Officer,  
Blackfoot

### 2 Lennie Blakeslee

Relationship Manager,  
CoBank

### 3 Bill Squires

Chief Executive Officer,  
Blackfoot



"IT'S ESSENTIAL FOR RESIDENTS AND BUSINESSES IN RURAL PARTS OF THE COUNTRY TO NOT ONLY HAVE DEPENDABLE PHONE SERVICE, BUT ALSO ACCESS TO HIGH-SPEED INTERNET AND OTHER IMPORTANT SERVICES."

Over the past two years, Blackfoot Telecommunications Group has grown and changed almost as quickly as the fast-paced communications industry itself. Once simply a provider of telephone service in rural Montana, Blackfoot now delivers state-of-the-art communications services to more than 20,000 customers in eight counties in both Montana and Idaho.

The company, which traces its roots to the creation of Blackfoot Telephone Cooperative in 1954, provides advanced communications services to residential and commercial customers. In addition to traditional voice and high-speed data, the company offers IT services, data transport, web hosting and communications billing software services. With more than 800 miles of fiber optic cable, Blackfoot also owns western Montana's largest private Voice over Internet Protocol network.

In 2013, with the help of a \$40 million loan from CoBank, Blackfoot acquired Fremont Telcom Co. and Fretel Communications, LLC, formerly owned by FairPoint Communications, which provided high-bandwidth data and voice services to business and residential

customers in eastern Idaho. Blackfoot also acquired FairPoint's ownership interest in Syringa Networks, a fast-growing fiber-transport company based in Boise.

"The acquisitions made good sense for our business and for our customers," said Bill Squires, Blackfoot's CEO. "We've been able to add great talent to our team and that has redefined how we drive innovation to bring products and services to market faster. We've also been able to dramatically improve the way local businesses connect and communicate."

"It also made sense to have CoBank as our financial partner," Squires said. "Since they're a cooperative, they understand our business and our needs."

"It's essential for residents and businesses in rural parts of the country to not only have dependable phone service, but also access to high-speed Internet and other important services," said Rob West, senior vice president of CoBank's Communications Banking Division. "If we can help a customer give their customers the tools needed to compete in the 21st century, then we've done our job and fulfilled our mission."



A Touchstone Energy® Cooperative



1 Ron Cunningham

Vice President, Power Delivery,  
Western Farmers  
Electric Cooperative

2 Gary Roulet

Chief Executive Officer,  
Western Farmers  
Electric Cooperative

3 Bill Fox

Managing Director,  
Capital Markets,  
CoBank

4 Brock Taylor

Regional Vice President,  
Power, Energy & Utilities Division,  
CoBank

5 Jane Lafferty

Chief Financial Officer,  
Western Farmers  
Electric Cooperative

"WFEC'S RELATIONSHIP WITH COBANK HAS ALLOWED US TO ACCELERATE OUR PROJECTS AND TO EFFECTIVELY TAKE ADVANTAGE OF THE CURRENT LOW INTEREST RATE ENVIRONMENT."

Like many Oklahoma businesses, Western Farmers Electric Cooperative has seen dramatic growth due to the region's ongoing oil boom. The generation and transmission cooperative serving 22 member distribution cooperatives in Oklahoma and New Mexico has been in business for more than 70 years and has become Oklahoma's largest locally owned power supply system.

WFEC has been a CoBank customer for more than 40 years. In fact, they were one of the first G&Ts to work with the Wichita Bank for Cooperatives, one of CoBank's predecessor banks.

"We've grown up with CoBank," said WFEC Chief Executive Officer Gary Roulet. "They know our market. They've dug deep to understand the issues facing our industry and, most importantly, they deliver the products and services that meet our needs."

In 2011, WFEC significantly increased its business with CoBank through the launch of its first syndicated line of credit, in which CoBank was the lead arranger, sole bookrunner and administrative agent. In 2012, CoBank provided a \$60 million term loan with an additional \$40 million shelf feature that allowed WFEC to expedite several critical projects, including upgrading miles of transmission line and building several new substations.

"CoBank was able to meet our financing needs more quickly than other lenders and their patronage program significantly reduced our costs," Roulet said.

In 2013, WFEC also took advantage of a new CoBank program that allowed National Rural Electric Cooperative Association members to finance prepayments to the organization's retirement plan to improve the financial position of the trust. In addition, WFEC worked with CoBank to amend and restate its \$200 million syndicated line of credit in order to extend the maturity date out five years.

According to Roulet, "WFEC's relationship with CoBank has allowed us to accelerate our projects and to effectively take advantage of the current low interest rate environment. At the end of the day, it's nice to do business with a fellow co-op."

"We appreciate and value the trust and confidence that Western Farmers has placed in CoBank and the Farm Credit System to meet a multitude of their financing needs over the decades," said Todd Telesz, senior vice president with CoBank's Power, Energy & Utilities Banking Division. "This is a partnership that works."

## A QUARTER CENTURY AT COBANK

The year 1989 is remembered for many events around the world—the end of the Reagan presidency in the U.S., the fall of the Berlin Wall, the Tiananmen Square protests in China, a junk bond scandal on Wall Street.

In the history of the Farm Credit System, it was a critical year as well. In January 1989, CoBank was formed through a merger of 10 regional banks serving small and medium-sized rural cooperatives across the country and the National Bank for Cooperatives, based in Denver and focused on serving large regional and national cooperative accounts.

Twenty-five years later, it's clear the 1989 merger that created CoBank was the right decision for the bank's customer-owners and rural America. CoBank has grown steadily since then, and today stands as one of the largest single providers of credit to the U.S. rural economy. More importantly, it continues to fulfill its mission, providing dependable credit and other financial services to its customers regardless of conditions in the markets.

We look back on the past 25 years with pride, and forward to the next 25 years of opportunity and success.

## TIMELINE

1933

THE FARM CREDIT ACT CREATES 13 BANKS FOR COOPERATIVES TO SERVE AGRICULTURAL CO-OPS THROUGHOUT THE COUNTRY.

1970

1971 Farm Credit Act broadens lending authority of the Banks for Cooperatives to include rural electric cooperatives and rural communications service providers.

1980

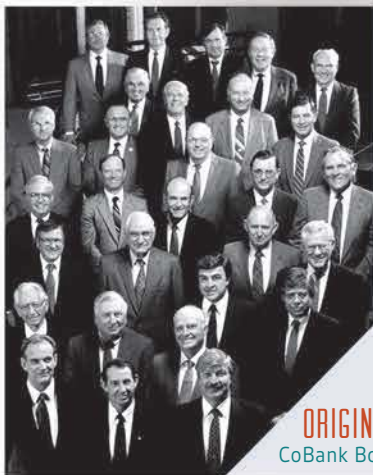
CoBank forms through merger of 10 regional Banks for Cooperatives with the Denver-based National Bank for Cooperatives.

1989

1990

CoBank merges with Farm Credit Bank of Springfield (Mass.) and the Springfield Bank for Cooperatives to form CoBank ACB, the first-ever consolidation of a Farm Credit Bank and a Bank for Cooperatives. The merger allows CoBank to serve as the funding bank for Farm Credit associations doing business in New England, New York and New Jersey.

1995



ORIGINAL  
CoBank Board of Directors

## CHIEF EXECUTIVES



1989–1993  
W. Malcolm Harding



1994–2006  
Douglas D. Simms



## THEN & NOW

**CoBANK**<sup>®</sup>

CoBank's original corporate logo

**CoBANK**<sup>®</sup>  
COOPERATIVE. CONNECTED. COMMITTED.

CoBank's logo today

Washington-based Northwest Farm Credit Services formally affiliates with CoBank, significantly expanding CoBank's wholesale lending portfolio.

**2002**

**2000**

**1999** CoBank merges with St. Paul Bank for Cooperatives and acquires a majority interest in Farm Credit Leasing Services Corp.

**2004** CoBank increases its ownership stake in Farm Credit Leasing Services Corporation from 82 percent to 100 percent.

**2012** CoBank merges with U.S. AgBank. CoBank becomes the funding bank for Farm Credit associations in the mid-plains, southwest and western United States and adds approximately \$20 billion to its loan portfolio.

**2010**

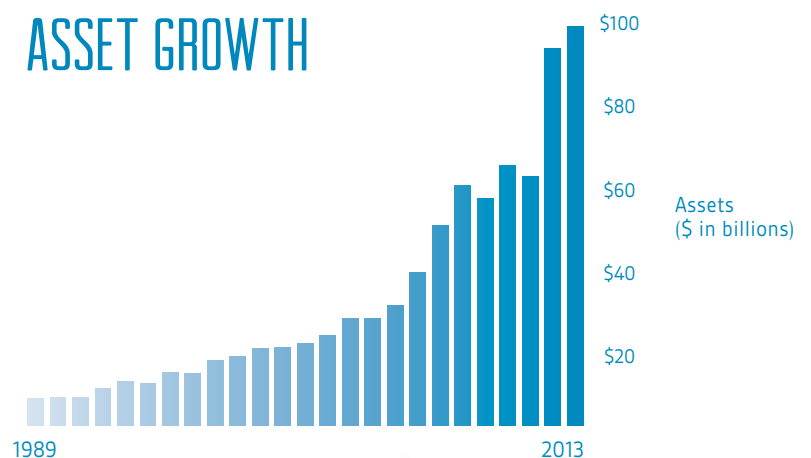
**2020**

**2014** / COBANK CELEBRATES ITS 25TH ANNIVERSARY



**2006-PRESENT**  
Robert B. Engel

## ASSET GROWTH



# VALUE PROPOSITION

CoBank is a financially strong, **DEPENDABLE**, cooperative bank that provides credit and financial solutions to rural America. We are **KNOWLEDGEABLE**, responsive and committed to enhancing our **CAPACITY** to deliver a superior customer experience and competitively priced products, while maintaining the safety and soundness of the bank for future generations. We consistently demonstrate our **FOCUS** on rural America, repeatedly strive to be a trusted advisor for our customers and provide a consistent return on their investment and **OWNERSHIP** in CoBank.

## COBANK 2013 FINANCIAL REPORT

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Leadership

# Management's Discussion and Analysis

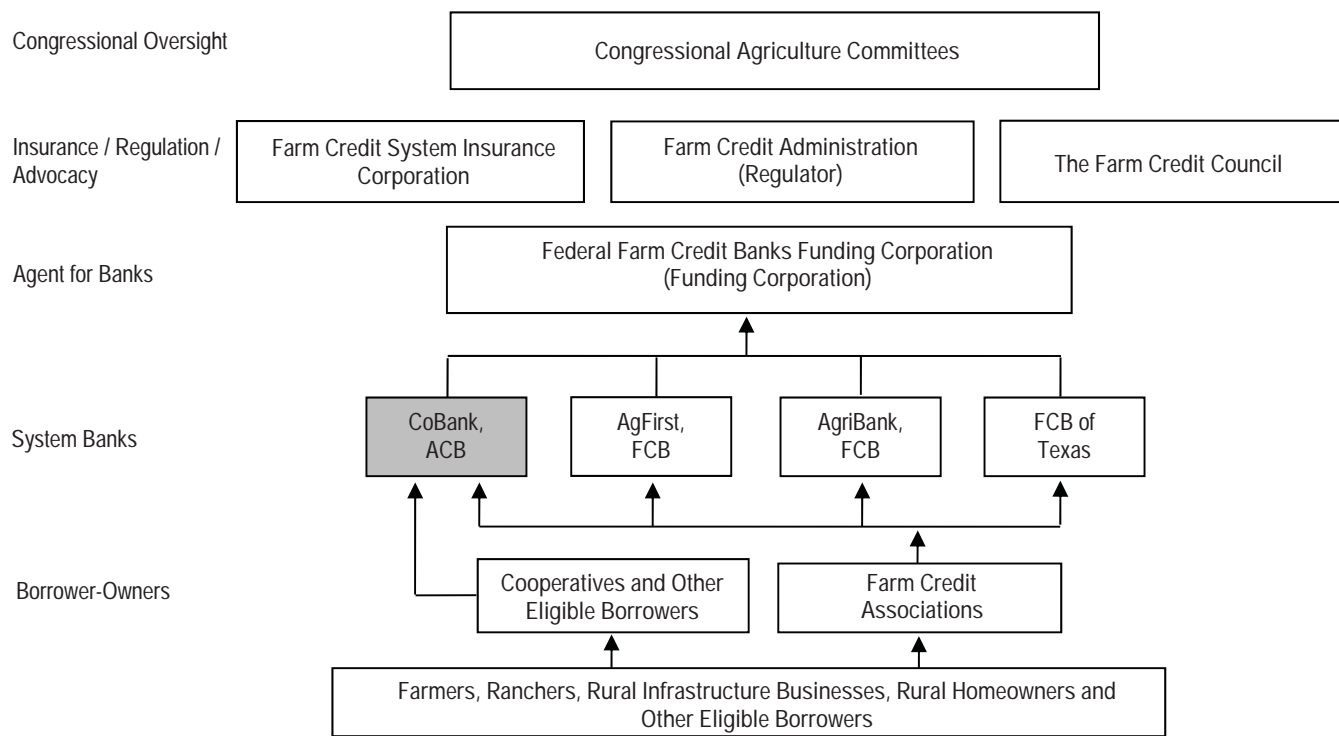
CoBank, ACB

## Company Introduction

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System) and provides loans, leases and other financial services to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations.

Cooperatives are organizations that are owned and governed by the members who use the cooperative's products or services. The System was established in 1916 by the U.S. Congress, and is a Government Sponsored Enterprise (GSE).

The following chart depicts the structure and ownership of the System.



CoBank is federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and is subject to supervision, examination, and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA). We are a mission-based lender with authority to make loans and provide related financial services to eligible borrowers in the agribusiness and rural utility industries, and to certain related entities, as defined by the Farm Credit Act. We are not legally authorized to accept deposits. We raise funds for our operations primarily by issuing debt securities through the System's agent, the Federal Farm Credit Banks Funding Corporation (Funding Corporation). Such securities are the joint and several obligations of the four System banks.

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives; rural energy, communications and water companies; farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (Associations); and other businesses that serve rural America. We are the primary funding source for certain Associations serving specified geographic regions in the United States (which are also regulated financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

We provide a broad range of loans and other financial services to vital industries through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.



The information and disclosures contained in this Annual Report to Shareholders primarily relate to CoBank. System annual and quarterly information statements and press releases for the current fiscal year and the two preceding fiscal years, as well as offering circulars relating to Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities), are available for inspection at, or will be furnished without charge upon request to, the Federal Farm Credit Banks Funding Corporation, 10 Exchange Place, Suite 1401, Jersey City, New Jersey 07302; telephone (201) 200-8000. These documents are also available online through the Federal Farm Credit Banks Funding Corporation website at [www.farmcreditfunding.com](http://www.farmcreditfunding.com). This website also provides a link to each System bank's website where financial and other information of each bank can be found.

The Federal Agricultural Mortgage Corporation (Farmer Mac) is a federally chartered corporation that was formed to provide a secondary market for a variety of loans made to borrowers in rural America. Although Farmer Mac is examined and regulated by the FCA, it is an entirely separate enterprise, and any reference to "the System" herein does not include Farmer Mac. For more information on Farmer Mac and its relationship with System entities, please see "Relationship with the Federal Agricultural Mortgage Corporation" on page 50.

## Financial Condition and Results of Operations

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### Overview

CoBank's earnings grew to \$856.5 million in 2013, a \$2.5 million increase compared to 2012 earnings. The slight increase primarily resulted from the absence of a provision for loan losses in 2013, as compared to a \$70.0 million provision for loan losses in 2012, and a 17 percent increase in the overall level of noninterest income. These items were largely offset by lower net interest income and an increase in Farm Credit Insurance Fund (Insurance Fund) premiums. Net interest income decreased 6 percent, primarily driven by lower levels of higher-spread seasonal volume in our Agribusiness operating segment and by the continued low interest rate environment, which resulted in lower returns on invested capital, our balance sheet positioning and investment securities.

Our loans outstanding totaled \$73.6 billion as of December 31, 2013, compared to \$72.0 billion at the end of 2012. Our average loan volume was \$71.9 billion during 2013, compared to \$70.3 billion in 2012. The increase in both year-end and average loan volume primarily resulted from growth in lending to Farm Credit Association customers in our lower-spread Strategic Relationships operating segment and to rural energy customers in our Rural Infrastructure operating segment.

Overall loan quality measures improved in 2013. Adversely classified loans and related accrued interest decreased to 0.71 percent of total loans and related accrued interest at December 31, 2013, compared to 1.01 percent at December 31, 2012. Total nonaccrual loans decreased to \$147.8 million at December 31, 2013 from \$170.2 million at December 31, 2012. As a result of overall favorable credit quality, we did not record a provision for loan losses in 2013.

Our financial position remains strong as of December 31, 2013, reflecting capital and liquidity levels well above regulatory minimums. Our shareholders' equity increased to \$6.7 billion at year-end 2013, compared to \$6.4 billion at year-end 2012. Our permanent capital and core surplus ratios were 16.72 percent and 10.82 percent, respectively, as of December 31, 2013, compared to the regulatory minimum requirements of 7.00 and 3.50 percent, respectively. As of year-end 2013, we held \$23.0 billion in investments and cash as a liquidity reserve and our days liquidity was 181 days.

During 2013, we completed two preferred stock transactions which lowered our overall cost of capital. In April 2013, we issued \$200 million of Series G non-cumulative perpetual preferred stock with a lifetime fixed dividend rate of 6.125 percent. In July 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling \$200 million. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

### Merger with U.S. AgBank, FCB

U.S. AgBank, FCB (AgBank), which was also a System bank, merged with and into CoBank effective January 1, 2012. Upon the date of the merger, CoBank became the funding bank for the Farm Credit Associations previously affiliated with AgBank. The merger with AgBank diversified CoBank's loan portfolio and enhanced our capital base and overall lending capacity.

Beginning in 2012, our financial position, results of operations, cash flows and related metrics include the effects of the merger with AgBank. Financial information prior to the date of the merger has not been restated to reflect the impact of the merger.

A five-year summary of selected consolidated financial data is shown in the following table.

Five-Year Summary of Selected CoBank Consolidated Financial Data					
(\$ in Thousands)	2013	2012	2011	2010	2009
<b>Consolidated Statement of Income Data</b>					
Net Interest Income	\$ 1,163,433	\$ 1,238,170	\$ 1,071,027	\$ 950,845	\$ 945,963
Provision for Loan Losses	-	70,000	58,000	60,000	80,000
Noninterest Income	132,085	113,321	117,936	98,559	84,961
Operating Expenses	280,094	263,883	228,270	216,210	219,231
Provision for Income Taxes	158,969	163,691	196,106	159,427	166,277
Net Income	\$ 856,455	\$ 853,917	\$ 706,587	\$ 613,767	\$ 565,416
<b>Net Income Distributed</b>					
Patronage Distributions:					
Common Stock	\$ 76,527	\$ 80,472	\$ 109,900	\$ 90,450	\$ 85,067
Cash	338,001	344,516	230,751	194,110	183,828
Total Patronage Distributions	414,528	424,988	340,651	284,560	268,895
Preferred Stock Dividends	62,980	72,065	63,799	63,799	60,955
Total Net Income Distributed	\$ 477,508	\$ 497,053	\$ 404,450	\$ 348,359	\$ 329,850
<b>Consolidated Balance Sheet Data</b>					
Total Loans	\$ 73,603,375	\$ 71,980,458	\$ 46,285,142	\$ 49,992,338	\$ 44,174,464
Less: Allowance for Loan Losses	447,126	437,376	388,056	400,744	369,817
Net Loans	73,156,249	71,543,082	45,897,086	49,591,594	43,804,647
Investment Securities	21,688,489	17,999,191	12,995,458	12,616,696	11,808,207
Cash	1,335,024	1,253,509	2,771,842	1,922,586	923,083
Other Assets	1,464,630	1,681,976	1,625,829	1,695,014	1,624,765
Total Assets	\$ 97,644,392	\$ 92,477,758	\$ 63,290,215	\$ 65,825,890	\$ 58,160,702
Debt Obligations with Maturities ≤ 1Year	\$ 35,653,930	\$ 27,796,639	\$ 22,019,899	\$ 22,271,349	\$ 16,593,682
Debt Obligations with Maturities > 1Year	53,708,507	56,715,165	35,084,587	38,052,964	36,317,632
Reserve for Unfunded Commitments	167,592	157,703	153,919	99,799	128,373
Other Liabilities	1,409,747	1,367,107	1,136,277	995,581	1,063,386
Total Liabilities	90,939,776	86,036,614	58,394,682	61,419,693	54,103,073
Preferred Stock	961,750	961,750	700,000	700,000	700,000
Common Stock	2,677,485	2,605,933	1,654,314	1,568,989	1,520,054
Unallocated Retained Earnings	3,103,926	2,729,031	2,439,531	2,137,394	1,871,986
Accumulated Other Comprehensive Income (Loss)	(38,545)	144,430	101,688	(186)	(34,411)
Total Shareholders' Equity	6,704,616	6,441,144	4,895,533	4,406,197	4,057,629
Total Liabilities and Shareholders' Equity	\$ 97,644,392	\$ 92,477,758	\$ 63,290,215	\$ 65,825,890	\$ 58,160,702
<b>Key Financial Ratios</b>					
For the Year:					
Return on Average Common Shareholders' Equity	14.40 %	15.16 %	16.05 %	15.31 %	15.96 %
Return on Average Total Shareholders' Equity	13.15	14.03	15.02	14.30	14.65
Return on Average Assets	0.91	0.94	1.07	1.03	0.93
Net Interest Margin	1.26	1.41	1.69	1.66	1.66
Net Recoveries (Charge-offs) / Average Loans	0.03	(0.02)	(0.03)	(0.13)	(0.15)
Patronage Distributions / Total Average Common Stock Owned by Active Borrowers	17.53	18.41	22.65	19.77	19.68
At Year-end:					
Debt / Total Shareholders' Equity (: 1)	13.56	13.36	11.93	13.94	13.33
Total Shareholders' Equity / Total Assets	6.87 %	6.97 %	7.74 %	6.69 %	6.98 %
Allowance for Credit Losses* / Total Loans	0.84	0.83	1.17	1.00	1.13
Permanent Capital Ratio	16.72	16.14	16.37	14.30	15.29
Total Surplus Ratio	15.74	15.22	16.01	13.96	15.01
Core Surplus Ratio	10.82	10.06	10.02	8.42	8.77
Net Collateral Ratio	107.57	107.08	109.05	108.03	108.67

\* Includes the allowance for loan losses and the reserve for unfunded commitments

## Net Interest Income

Interest income and interest expense for the major categories of interest-earning assets and interest-bearing liabilities are shown in the following table.

Average Balances and Rates																		
Year Ended December 31, 2013				2012				2011										
(\$ in Millions)				Average Balance	Average Rate	Interest Income/Expense	Average Balance				Average Rate	Interest Income/Expense						
Interest-earning Assets																		
Total Loans	\$	71,857	2.30 %	\$	1,651	\$	70,271	2.42 %	\$	1,704	\$	50,199	3.02 %	\$	1,518			
Investment Securities		20,341	1.53		312		17,655	1.82		322		13,051	2.08		271			
Total Interest-earning Assets	\$	92,198	2.13	\$	1,963	\$	87,926	2.30	\$	2,026	\$	63,250	2.83	\$	1,789			
Interest-bearing Liabilities																		
Bonds and Notes	\$	73,303	1.02 %	\$	750	\$	72,741	1.00 %	\$	730	\$	50,942	1.28 %	\$	651			
Discount Notes		9,935	0.15		15		7,687	0.18		14		7,113	0.27		19			
Subordinated Debt		905	4.09		37		995	4.52		45		1,000	4.40		44			
Other Notes Payable		1,777	(0.11) *		(2) *		1,408	(0.07) *		(1) *		1,354	0.30		4			
Total Interest-bearing Liabilities	\$	85,920	0.93	\$	800	\$	82,831	0.95	\$	788	\$	60,409	1.19	\$	718			
Interest Rate Spread			1.20					1.35					1.64					
Impact of Equity Financing	\$	6,627	0.06			\$	6,218	0.06			\$	4,705	0.05					
Net Interest Margin and																		
Net Interest Income				1.26 %	\$	1,163	1.41 %				\$	1,238	1.69 %				\$	1,071
* Average rate was favorably impacted by derivative-related fair value accretion resulting from merger accounting.																		

\* Average rate was favorably impacted by derivative-related fair value accretion resulting from merger accounting.

Changes in our interest income, interest expense and net interest income due to volume and rate variances for interest-earning assets and interest-bearing liabilities are summarized in the table below.

Changes in Net Interest Income Due to Changes in Average Volume and Interest Rates*						
2013				2012		
(\$ in Millions)	Increase (Decrease) From Previous Year Due To			Increase (Decrease) From Previous Year Due To		
	Volume	Yield/Rate	Total	Volume	Yield/Rate	Total
Total Loans	\$ 56	\$ (109)	\$ (53)	\$ 544	\$ (358)	\$ 186
Investment Securities	42	(52)	(10)	94	(43)	51
Total Interest Income	98	(161)	(63)	638	(401)	237
Total Interest Expense	46	(34)	12	265	(195)	70
Changes in Net Interest Income	\$ 52	\$ (127)	\$ (75)	\$ 373	\$ (206)	\$ 167

\* The change in interest income or expense not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

\* The change in interest income or expense not solely due to changes in volume or rate has been allocated in proportion to the absolute dollar amount of the change in volume and rate.

Net interest income decreased \$74.7 million, or 6 percent, to \$1,163 million in 2013, compared to \$1,238 million in 2012. The decrease in net interest income was primarily driven by lower seasonal loan volume in our Agribusiness operating segment and by the continued low interest rate environment impacting returns on invested capital, our balance sheet positioning and investment securities. Average loan volume increased \$1.6 billion, or 2 percent, in 2013. However, the change in loan volume included a shift in mix from higher-spread seasonal agribusiness loans to lower-spread loans to Farm Credit Association, rural energy and agricultural export finance customers. These lower-spread loan portfolios generally have a lower risk profile.

Average investment securities increased to \$20.3 billion in 2013 from \$17.7 billion in 2012. The increase in our average investments primarily reflects better market opportunities to purchase investment securities that meet our risk/return profile.

Our overall net interest margin declined to 1.26 percent in 2013 from 1.41 percent in 2012, and interest rate spread decreased to 1.20 percent in 2013 from 1.35 percent in 2012. The decline in our net interest margin and spread included the impact of lower returns on invested capital, our balance sheet positioning and investment securities. Earnings on our \$6.6 billion of average 2013 shareholders' equity continue to be negatively impacted by the low market interest rates



prevalent in recent years. To a lesser extent, the decline in net interest margin and spread also resulted from lower spreads in certain of our lending portfolios reflective of increased competition for the business of our customers and the shift in the mix of interest-earning assets, as described above.

Net interest income includes \$83.3 million and \$90.0 million of net accretion of merger-related asset and liability fair value adjustments for 2013 and 2012, respectively. These amounts resulted from the application of business combination accounting standards in connection with our 2012 merger with AgBank. The amount of net accretion income recognized is expected to decline significantly over the next three years, and approximately three-quarters of such income will likely be recognized by the end of 2016.

In 2012, our net interest income increased 15 percent to \$1,238 million, compared to \$1,071 million in 2011. The increase in net interest income primarily resulted from the positive impact of the merger with AgBank, which increased our loan volume by \$20.2 billion and our investment securities by \$4.8 billion as of the January 1, 2012 merger date. Our 2012 net interest margin declined to 1.41 percent from 1.69 percent in 2011, and interest rate spread decreased to 1.35 percent in 2012 from 1.64 percent in 2011. These decreases reflect the addition of the wholesale loans to Farm Credit Associations acquired in the merger, as such loans carry a lower spread than loans to retail customers.

#### **Provision for Loan Losses and Allowance for Credit Losses**

The provision for loan losses reflects our expense estimates for credit losses inherent in our loan and finance lease portfolios, including unfunded commitments. The allowance for loan losses covers the funded portion of our loans outstanding, while the reserve for unfunded commitments is held to cover losses on unfunded lending commitments. The sum of the allowance for loan losses and the reserve for unfunded commitments is referred to as the allowance for credit losses. We base our allowance for probable and estimable losses on the factors discussed in “Critical Accounting Estimates – Allowance for Credit Losses” on page 55. The tables on page 33 summarize the activity in our allowance for credit losses, by operating segment, for the past five years.

As a result of overall favorable credit quality, we did not record a provision for loan losses in 2013. While there was no provision for loan losses on a consolidated basis, we did record a \$6.0 million provision for loan losses in our Rural Infrastructure operating segment due to growth in lending to rural energy customers, which was offset by a reversal of \$6.0 million of the allowance for credit losses in our Agribusiness operating segment due to improved credit quality.

In 2012, our provision for loan losses totaled \$70.0 million and reflected specific credit challenges primarily related to a small number of customers in our Rural Infrastructure operating segment, further assessment of risk associated with loan concentrations, and continued general economic weakness.

Adversely classified loans and related accrued interest decreased to 0.71 percent of total loans and related accrued interest at December 31, 2013, compared to 1.01 percent at December 31, 2012. The decrease in the level of adversely classified loans and related accrued interest was primarily due to improved credit quality within our Agribusiness operating segment and the impact of the shift in mix within our overall loan portfolio, as previously described.

Total nonaccrual loans decreased to \$147.8 million (0.20 percent of total loans) at December 31, 2013 from \$170.2 million (0.24 percent of total loans) at December 31, 2012 primarily due to repayments from a small number of customers in our Agribusiness operating segment. We recorded recoveries, net of charge-offs, of \$19.6 million in 2013 compared to net charge-offs of \$16.9 million in 2012.

In 2011, we recorded a \$58.0 million provision for loan losses related to higher levels of average commitments in our Agribusiness operating segment, credit challenges facing a limited number of customers in our Agribusiness and Rural Infrastructure operating segments, and weakness in the general economy. Net charge-offs were \$16.6 million in 2011, and nonaccrual loans were \$134.9 million at December 31, 2011, or 0.29 percent of total loans.

Our allowance for credit losses was \$614.7 million at December 31, 2013, compared to \$595.1 million and \$542.0 million as of December 31, 2012 and 2011, respectively. The allowance for credit losses represented 0.84 percent of total loans as of the end of 2013, compared to 0.83 percent and 1.17 percent of total loans at December 31, 2012 and 2011, respectively. At December 31, 2013, our allowance for credit losses represented 1.85 percent of non-guaranteed loans excluding loans to Associations, compared to 1.87 percent at December 31, 2012.

Refer to “Corporate Risk Profile – Credit Risk Management” beginning on page 36 for further information on nonperforming loans, charge-offs, loan quality trends and the factors considered in determining the levels of our provision for loan losses and overall allowance for credit losses.

#### **Noninterest Income**

The following table details our noninterest income for each of the last three years.

Noninterest Income (\$ in Thousands)			
Year Ended December 31,	2013	2012	2011
Net Fee Income	\$ 118,737	\$ 116,801	\$ 117,741
Prepayment Income	78,217	49,379	24,691
Losses on Early			
Extinguishment of Debt	(96,839)	(86,718)	(50,421)
Loss on Tender Offer for			
Subordinated Debt	-	(28,460)	-
Other-Than-Temporary			
Impairment Losses, Net	(2,500)	(17,000)	(10,000)
Other, Net	34,470	79,319	35,925
<b>Total Noninterest Income</b>	<b>\$ 132,085</b>	<b>\$ 113,321</b>	<b>\$ 117,936</b>

Noninterest income is primarily composed of fee income, loan prepayment income and miscellaneous gains and losses, offset by losses on early extinguishment of debt (including subordinated debt in 2012) and impairment losses on investment securities.

Total noninterest income increased in 2013 to \$132.1 million, or by 17 percent, from \$113.3 million in 2012. The increase primarily resulted from a lower level of losses on early extinguishment of debt, net of prepayment fees, and a decline in the level of other-than-temporary impairment losses on investment securities. The increase in net noninterest income also included the impact of a \$28.5 million loss on a tender offer for subordinated debt in 2012. Noninterest income in 2012 included \$44.6 million in refunds from the Insurance Corporation related to the Insurance Fund. There were no Insurance Fund premium refunds during 2013.

Our net fee income, which includes arrangement fees and unused commitment fees, among others, increased modestly to \$118.7 million in 2013 compared to \$116.8 million in 2012 primarily due to higher levels of arrangement fees and unused commitment fees in our Agribusiness operating segment.

Prepayment income increased to \$78.2 million in 2013 from \$49.4 million in 2012 due to a higher level of customer refinancing activity, as customers continued to take advantage of the low interest rate environment to refinance their loans. We extinguish debt to offset the current and prospective impact of prepayments in our loan and investment portfolios and to maintain a desired mix of interest-earning assets and interest-bearing liabilities. During 2013, we extinguished \$797.1 million of Systemwide Debt Securities compared to \$371.5 million in 2012. Losses on early extinguishment of Systemwide Debt Securities were \$96.8 million in 2013 compared to \$86.7 million in 2012. Debt extinguishment losses in excess of prepayment income reflect debt extinguishments to better position our balance sheet in the low interest rate environment and reduce our future interest expense.

In December 2012, we purchased \$95.3 million of our 7.875 percent fixed rate Series 2008A subordinated notes through a cash tender offer. This transaction, which also reduced future interest expense, resulted in a \$28.5 million loss in 2012.

We recorded \$2.5 million of other-than-temporary impairment losses on investment securities in 2013 compared to \$17.0 million in 2012. The impairments in 2013 and 2012 resulted from credit quality deterioration of certain residential mortgage- and asset-backed securities. The 2012 impairments also reflect changes to assumptions in our credit loss models to better reflect expected cash flows related to certain residential mortgage- and asset-backed securities. A portion of the securities impaired in 2013 and 2012 were non-agency residential mortgage-backed investment securities and were among those identified as credit-impaired investment securities acquired as part of the AgBank merger (discussed further in Note 3 to the accompanying consolidated financial statements). The credit quality of our investment portfolio is discussed in "Liquidity and Capital Resources" beginning on page 51.

Other net noninterest income in 2012 includes a \$44.6 million refund from the Insurance Corporation related to the Insurance Fund. As described in Note 6 to the accompanying consolidated financial statements, when the Insurance Fund exceeds the statutory 2 percent Secure Base Amount (SBA), the Insurance Corporation is required to reduce premiums and may refund excess amounts. The Insurance Fund ended 2011 above the SBA. In April 2012, the Insurance Corporation approved the distribution of the excess amounts and in May of 2012, such amounts were distributed to the System banks.

Total noninterest income decreased by \$4.6 million, or 4 percent, in 2012 from \$117.9 million in 2011. The 2012 period included the \$28.5 million loss related to the tender offer to purchase a portion of our subordinated debt, greater losses on early extinguishment of Systemwide Debt Securities, net of prepayment income, of \$11.6 million, and a \$7.0 million increase in other-than-temporary impairment losses on investment securities. These items were largely offset by the impact of the aforementioned 2012 refunds from the Insurance Corporation.

### Operating Expenses

The following table details our operating expenses for each of the last three years.

Analysis of Operating Expenses (\$ in Thousands)			
Year Ended December 31,	2013	2012	2011
Employee Compensation	\$ 148,024	\$ 145,999	\$ 117,531
General and Administrative	21,517	32,228	24,446
Information Technology	27,020	22,227	18,846
Insurance Fund Premium	36,974	18,349	20,245
Travel and Entertainment	16,019	15,767	12,425
Farm Credit System Related	12,817	13,279	8,415
Occupancy and Equipment	8,330	9,012	7,404
Purchased Services	9,393	7,022	18,958
Total Operating Expenses	\$ 280,094	\$ 263,883	\$ 228,270
Total Operating Expenses/ (Net Interest Income + Net Fee Income)	21.8 %	19.5 %	19.2 %
Operating Expenses, Excluding Insurance Fund Premium/ (Net Interest Income + Net Fee Income)	19.0	18.1	17.5

Total operating expenses increased 6 percent in 2013 to \$280.1 million, compared to \$263.9 million for 2012 primarily due to higher Insurance Fund premium expense driven by an increase in the premium rate.

Employee compensation expense, which primarily includes salaries, incentive compensation and employee benefits, increased modestly to \$148.0 million in 2013 from \$146.0 million in 2012 due to higher levels of salary expense and certain severance-related benefits, partially offset by lower levels of incentive compensation expense. As of December 31, 2013, we had 843 employees, compared to 865 at December 31, 2012. The decline in staffing reflects an

emphasis on maintaining efficient operations, particularly in light of the weak economy and low interest rate environment.

General and administrative expenses decreased to \$21.5 million in 2013 from \$32.2 million in 2012. The decrease included the impact of a special \$5.0 million commitment the Bank made in 2012 to support land grant and other agricultural universities around the country, consistent with our mission to support institutions of importance to rural America. In addition, the decrease in general and administrative expenses reflected a lower level of contributions to System service organizations to enhance their technology platforms for the benefit of Association customers.

Information technology expense increased to \$27.0 million in 2013 from \$22.2 million in 2012 as a result of several initiatives, including integration efforts related to our merger with AgBank, security upgrades and enhancements to our customer service and risk management platforms.

Insurance Fund premium expense increased to \$37.0 million primarily due to an increase in premium rates, which were 10 basis points of average outstanding adjusted insured debt obligations for 2013, compared to five basis points for 2012. The increase in Insurance Fund premium rates resulted from growth in overall Farm Credit System assets in 2012 and the Insurance Corporation's projections for growth in 2013.

Our travel and entertainment expenses increased slightly to \$16.0 million in 2013 from \$15.8 million in 2012, due to a greater level of expenditures for customer-facing activities.

Farm Credit System related expenses were \$12.8 million in 2013 compared to \$13.3 million in 2012. These expenses include our share of costs to fund the operations of the FCA, the Farm Credit Council (FCC), a national trade organization that represents System entities, and the System's reputation management committee. Each System institution is assessed a pro rata share of the FCA's total expenses based primarily on each institution's average risk-adjusted assets. FCC costs are generally allocated based on the number of directors that represent each district (a System bank and its affiliated Associations) and the level of bank assets. Costs related to the System's reputation risk management committee are primarily allocated to each System bank based on each bank's pro rata share of average assets.

Occupancy and equipment expenses decreased to \$8.3 million in 2013 from \$9.0 million in 2012 due to reduced spending on maintenance and improvements.

Purchased services expense increased to \$9.4 million in 2013 from \$7.0 million in 2012, as the 2012 period included credits for post-merger services provided to a System service provider that did not recur in 2013.

Total operating expenses as a percent of net interest income plus net fee income were 21.8 percent in 2013 compared to 19.5 percent in 2012 and 19.2 percent in 2011. Excluding the impact of Insurance Fund premium expense, operating expenses as a percent of net interest income plus net fee income were 19.0 percent in 2013, compared to 18.1 percent in 2012 and 17.5 percent in 2011.

The \$35.6 million increase in total operating expenses in 2012 from 2011 included a \$28.5 million increase in employee compensation expense, resulting from the addition of AgBank employees as a part of the merger, other staffing increases and the impact of changes in the design of certain elements of our compensation program. General and administrative expenses increased \$7.8 million in 2012 compared to 2011 due to increases in contributions to universities, charitable organizations and organizations that advance the mission of the System and industries we serve. Our information technology, travel and entertainment, Farm Credit System related and occupancy and equipment expenses all increased in 2012 as compared to 2011 due to the merger. These items were partially offset by lower Insurance Fund premium expense, due to a decrease in the premium rate, and lower purchased services expense. Purchased services expense in the 2011 period included \$9.8 million of merger-related expenses related to outside advisors and consultants who assisted with transaction analysis and integration planning activities.

### **Provision for Income Taxes**

Our provision for income taxes decreased to \$159.0 million in 2013 from \$163.7 million in 2012, and our effective tax rate decreased to 15.7 percent for 2013 from 16.1 percent for 2012. Our effective tax rates are less than the applicable federal and state statutory income tax rates due to tax-deductible patronage distributions. In addition, as more fully discussed in Note 1 to the accompanying consolidated financial statements, a portion of CoBank's activities are exempt from income taxes. These tax-exempt activities primarily include lending to Farm Credit Associations. The decrease in our effective tax rate in 2013 resulted primarily from an increase in earnings in non-taxable business activities in 2013.

Our effective tax rate decreased to 16.1 percent for 2012 compared to 21.7 percent for 2011, as the merger with AgBank significantly increased the earnings in the tax-exempt portion of our business beginning in 2012.



## Operating Segment Financial Review

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure. We hold investment securities primarily as a liquidity reserve to support our core lending operations. Net interest income on investment securities and gains or losses on investment securities are allocated to all operating segments, whereas the underlying investment assets are not allocated to the operating segments.

In addition to the operating segments described below, our Banking Services Group (BSG) provides capital markets services, which support our lending divisions. BSG manages syndications and loan sales with approximately 133 financial institutions. In 2013, we syndicated or sold approximately \$19.8 billion of loan commitments to System entities and other financial institutions to help meet customers' credit needs and to effectively manage our risk diversification and capital. BSG's Knowledge Exchange Division also provides the Bank and our customers industry specific research and strategic insight to enhance understanding of emerging trends, business opportunities, and risks.

In addition, we provide non-credit products and services including cash management, online banking, and commercial credit card and merchant card processing solutions. Revenues generated by BSG and from non-credit products and services, as well as all related operating expenses, are allocated to the appropriate operating segments.

Net income by operating segment is summarized in the accompanying table and is more fully disclosed in Note 15 to the accompanying consolidated financial statements. The following tables also provide period-end and average loan amounts.

Net Income by Operating Segment (\$ in Thousands)			
Year Ended December 31,	2013	2012	2011
Operating Segment:			
Agribusiness	\$ 379,630	\$ 409,886	\$ 438,082
Strategic Relationships	254,749	245,638	80,806
Rural Infrastructure	229,632	208,199	194,418
Total Operating Segments	864,011	863,723	713,306
Corporate/Other	(7,556)	(9,806)	(6,719)
Total	\$ 856,455	\$ 853,917	\$ 706,587

### Period-end Loan Portfolio by Operating Segment (\$ in Millions)

December 31,	2013	2012	2011	2010	2009
Agribusiness	\$ 21,182	\$ 21,394	\$ 18,869	\$ 22,676	\$ 17,469
Strategic Relationships	37,897	36,707	15,236	15,392	15,271
Rural Infrastructure	14,524	13,879	12,180	11,924	11,434
Total Loans	\$ 73,603	\$ 71,980	\$ 46,285	\$ 49,992	\$ 44,174

### Average Loan Portfolio by Operating Segment (\$ in Millions)

Year Ended December 31,	2013	2012	2011	2010	2009
Agribusiness	\$ 21,077	\$ 22,209	\$ 23,104	\$ 18,896	\$ 18,229
Strategic Relationships	36,565	34,976	15,215	15,118	15,062
Rural Infrastructure	14,215	13,086	11,880	11,524	11,236
Total Average Loans	\$ 71,857	\$ 70,271	\$ 50,199	\$ 45,538	\$ 44,527

The following table presents activity in the allowance for credit losses by operating segment.

Analysis of the Allowance for Credit Losses (\$ in Thousands)					
	2013	2012	2011	2010	2009
Beginning of Year	\$ 595,079	\$ 541,975	\$ 500,543	\$ 498,190	\$ 483,421
Charge-offs:					
Agribusiness	(1,622)	(29,069)	(10,559)	(25,893)	(36,958)
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	(26)	(1,556)	(12,956)	(50,502)	(33,240)
Total Charge-offs	(1,648)	(30,625)	(23,515)	(76,395)	(70,198)
Recoveries:					
Agribusiness	20,199	11,022	6,527	4,234	4,850
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	1,088	2,707	420	14,514	117
Total Recoveries	21,287	13,729	6,947	18,748	4,967
Net Recoveries (Charge-offs)	19,639	(16,896)	(16,568)	(57,647)	(65,231)
Provision (Reversal) Charged (Credited) to Earnings:					
Agribusiness	(6,000)	16,550	37,000	7,167	39,000
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	6,000	53,450	21,000	52,833	41,000
Total Provision Charged to Earnings	-	70,000	58,000	60,000	80,000
End of Year	\$ 614,718	\$ 595,079	\$ 541,975	\$ 500,543	\$ 498,190
Components:					
Allowance for Loan Losses	\$ 447,126	\$ 437,376	\$ 388,056	\$ 400,744	\$ 369,817
Reserve for Unfunded Commitments	167,592	157,703	153,919	99,799	128,373
Total Allowance for Credit Losses (ACL)	\$ 614,718	\$ 595,079	\$ 541,975	\$ 500,543	\$ 498,190
ACL/Total Loans	0.84 %	0.83 %	1.17 %	1.00 %	1.13 %
ACL/Non-guaranteed Loans (Excluding Loans to Associations)	1.85	1.87	1.92	1.60	1.98
ACL/Impaired Loans	413	345	402	299	154
ACL/Nonaccrual Loans	416	350	402	300	162
Net Recoveries (Charge-offs)/Average Loans	0.03	(0.02)	(0.03)	(0.13)	(0.15)

Allowance for Credit Losses by Operating Segment (\$ in Thousands)					
December 31,	2013	2012	2011	2010	2009
Agribusiness	\$ 396,864	\$ 384,287	\$ 385,784	\$ 352,816	\$ 367,308
Strategic Relationships	-	-	-	-	-
Rural Infrastructure	217,854	210,792	156,191	147,727	130,882
Total Allowance for Credit Losses	\$ 614,718	\$ 595,079	\$ 541,975	\$ 500,543	\$ 498,190

## Agribusiness

### Overview

The Agribusiness operating segment includes loans and other financial services provided to cooperatives and other businesses in various agricultural sectors such as grain handling and marketing, farm supply, food processing, dairy, livestock, fruits, nuts, vegetables, cotton, biofuels and forest products. Primary products and services include term loans, revolving lines of credit, trade finance, tax-exempt bond issuances, capital markets services, and cash management and investment products. To enhance portfolio diversification, and to assist System partners in meeting the needs of their

customers, we purchase participations in agribusiness loans from other System entities and financial institutions.

A significant level of Agribusiness loan volume finances seasonal grain inventories, through the use of lines of credit, for grain cooperative customers. This seasonal volume is affected by a number of factors, including grain volume, commodity prices, farmer selling patterns, transportation availability, and the relationship between cash and futures prices in the grain commodities markets. Agribusiness loan volume generally reaches a seasonal low in late summer or early fall. Harvest financing demands result in loan volume increases beginning in the late fall of each year. Peak loan volume typically occurs early in the year when our cooperative customers pay producers' deferred grain payables.

Our Agribusiness customers face widely fluctuating supplies in global markets, changing market demand and increasing regulation. These trends are leading some of our cooperative customers to consolidate and merge, enter into joint ventures, or form alliances while developing new markets. This consolidation trend has, in some cases, resulted in larger individual and attributed credit commitments, which is consistent with our mission. We meet our customers' financing needs by maintaining appropriate credit exposure to individual customers and partnering with System entities and commercial banks in loan syndications and sales.

The Agribusiness segment includes our Agricultural Export Finance Division, which provides trade finance to support U.S. exporters for international trade of agricultural products. Obligor consist primarily of financial institutions in foreign countries (generally emerging markets) which support our exporting customers in selling and shipping agricultural products to international markets. In financing the export of U.S. agricultural products, the Agricultural Export Finance Division utilizes the U.S. government-sponsored export loan guarantee General Sales Manager (GSM) program. As of December 31, 2013, the Agricultural Export Finance Division had \$4.5 billion in loans outstanding, 58 percent of which were guaranteed by the U.S. government under the GSM program, compared to \$4.6 billion in loans outstanding as of December 31, 2012, 76 percent of which were guaranteed under the GSM program. The shift in mix toward a higher level of non-guaranteed volume reflects a decline in the competitiveness of the GSM program coupled with our strategy to support an increasing level of exports.

The Agribusiness segment also includes Farm Credit Leasing Services Corporation (FCL), a wholly-owned subsidiary which provides leases and lease-related products and financial services to agribusinesses, agricultural producers, Association partners, and rural infrastructure companies. As of December 31, 2013, FCL had \$2.3 billion in leases outstanding compared to \$2.1 billion in leases outstanding as of December 31, 2012.

The Agribusiness operating segment loans outstanding totaled \$21.2 billion at December 31, 2013, compared to \$21.4 billion at December 31, 2012, inclusive of the Agricultural Export Finance and FCL amounts described above.

### 2013 Performance

Agribusiness average loan volume decreased 5 percent to \$21.1 billion in 2013 from \$22.2 billion in 2012. The decline in average loan volume reflected a decrease in seasonal lending to farm supply and grain marketing cooperatives due to lower grain inventory levels throughout most of 2013, lower agricultural commodity prices and strong grain elevator cash positions. The impact of lower seasonal lending was somewhat offset by greater levels of lending to agricultural export finance customers and large agribusiness and food customers, as well as growth in our leasing portfolio.

The level of seasonal lending within our Agribusiness operating segment can fluctuate significantly from period to period and is impacted by numerous factors, including grain commodity prices. The following table shows five-year price

trends for certain grain commodities. Prices represent the yearly high and low "nearby" futures price per bushel for corn, soybeans and wheat. Nearby futures contracts represent those contracts with the nearest settlement date.

Year Ended					
December 31,	2013	2012	2011	2010	2009
Commodity					
Corn:					
High	\$ 7.41	\$ 8.44	\$ 8.00	\$ 6.30	\$ 4.50
Low	4.12	5.51	5.95	3.25	3.06
Soybeans:					
High	16.13	17.89	14.56	13.84	12.67
Low	12.59	11.50	12.70	9.00	6.28
Wheat:					
High	7.91	9.47	8.93	8.08	6.74
Low	6.00	5.90	5.80	4.26	4.40

Our Agribusiness segment generated \$379.6 million in net income for 2013, a 7 percent decrease from the \$409.9 million in net income for 2012. The decrease in earnings resulted primarily from an \$88.7 million decline in net interest income, as a result of lower average seasonal loan volume, as described above, and the continued low interest rate environment impacting returns on invested capital, our balance sheet positioning and investment securities. To a lesser extent, the decrease in Agribusiness net interest income resulted from lower overall spreads due to increased competition in the banking industry for the business of our customers and the impact of improved borrower credit quality on pricing.

A \$6.0 million reversal in the allowance for loan losses was recorded in our Agribusiness operating segment in 2013, while a \$16.6 million provision for loan losses was recorded in 2012. The reversal in 2013 reflected improved credit quality and the impact of loan recoveries. Nonaccrual loans decreased to \$53.2 million at December 31, 2013 from \$70.5 million at December 31, 2012 primarily due to repayments by a small number of customers. Recoveries, net of charge-offs, were \$18.6 million in 2013 compared to \$18.0 million in net charge-offs for 2012. Charge-offs and recoveries in both periods related to a limited number of customers and were not reflective of any significant trend within the Agribusiness loan portfolio.

Noninterest income in our Agribusiness segment increased by \$28.0 million in 2013 primarily due to an increase in fee income resulting from greater arrangement fees and unused commitment fees, and a lower level of losses on early extinguishments of debt, including subordinated debt, net of prepayment income. Operating expenses in our Agribusiness segment increased by \$9.7 million in 2013 primarily due to the increase in Insurance Fund premiums and information technology expense, partially offset by the decline in general and administrative expense. Income tax expense in the Agribusiness operating segment decreased \$17.5 million primarily due to the decline in pretax earnings.



## ***Strategic Relationships***

### **Overview**

The Strategic Relationships operating segment includes loans from the direct funding relationships we have with our affiliated Association customer-owners and our funding relationships with other System institutions. Our affiliates include Associations operating in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. These strategic partnerships allow the Bank and our affiliated Associations to provide credit and non-credit services to a more diverse set of customers. The Associations' strong market presence and local relationship management, combined with our complementary product suite and lending capacity, provide the Bank and our affiliated Associations a competitive advantage in attracting and retaining customers. Developing and maintaining strong relationships with Farm Credit Associations and banks is an important strategic focus for the entire Bank.

As of December 31, 2013, the Strategic Relationships portfolio totaled \$37.9 billion, including \$34.0 billion in wholesale loans to our affiliated Associations and \$3.9 billion of participations in wholesale loans made by other System banks to certain of their affiliated Associations, \$3.7 billion of which were participations in loans made by the Farm Credit Bank of Texas. As of December 31, 2012, the Strategic Relationships portfolio totaled \$36.7 billion.

The merger with AgBank resulted in a \$19.5 billion increase in Strategic Relationships loan volume as of January 1, 2012, including \$18.9 billion in loans outstanding and \$530.9 million in fair value adjustments recorded pursuant to business combination accounting standards.

### **2013 Performance**

Strategic Relationships average loan volume increased 5 percent to \$36.6 billion in 2013 compared to \$35.0 billion in 2012. The increase was primarily the result of growth in lending to affiliated Associations driven by their increased lending to agricultural producers and increased levels of participation in loans originated within CoBank's Agribusiness and Rural Infrastructure operating segments. To a lesser extent, increased Strategic Relationships volume also resulted from an increase in our participation in wholesale loans made by another System bank to certain of its affiliated Associations.

Strategic Relationships net income increased to \$254.7 million for 2013, a 4 percent increase from \$245.6 million for 2012. The increase in earnings resulted from an \$11.7 million increase in net interest income due to the growth in average loan volume.

Overall loan quality in our Strategic Relationships portfolio continues to be strong. As a wholesale lender to Associations, we benefit from the diversification of the Association loan portfolios and a strong collateral position. In addition, the earnings, capital and loan loss reserves of the Associations provide a buffer from losses in their respective loan portfolios. Lower spreads in the Strategic Relationships

operating segment are commensurate with the lower risk profile and lower regulatory capital requirements. No provisions for loan losses or allowance for credit losses have been recorded related to any Association loan.

Strategic Relationships operating expenses increased to \$34.2 million in 2013 from \$31.3 million in 2012 largely due to increased Insurance Fund premiums on investment securities allocated to Strategic Relationships. Strategic Relationships has no income tax expense as the earnings on its business activities are tax exempt.

## ***Rural Infrastructure***

### **Overview**

The Rural Infrastructure operating segment includes loans and other financial services provided to companies in the power and energy, communications, and water and waste water industries. Primary products and services include term loans, revolving lines of credit, project financing, tax-exempt bond issuances, capital markets services and cash management and investment products.

Power industry customers include rural electric generation and transmission cooperatives, electric distribution cooperatives, renewable energy providers, independent power producers, and investor-owned utilities. Loan demand from power supply customers has been modest in recent years as a result of continued weakness in the general economy and regulatory uncertainty. Nonetheless, customers undertaking infrastructure enhancements to meet long-term requirements or to comply with environmental regulations continue to demand debt capital. Growth in renewable energy projects also contributes to loan demand from power supply customers. Loan growth has also resulted from opportunities to refinance borrowings from other lenders, particularly in the electric distribution sector.

Communications industry customers include rural local exchange carriers, wireless providers, data transport networks, cable television systems and data centers. We focus on communications companies that are positioned to provide a range of services, including voice (both wireline and wireless), broadband and video, to rural areas. Growth opportunities may arise from merger and acquisition activity, as consolidation often results from carriers seeking to improve operating efficiencies and gain market share in this highly competitive industry. Capital spending may provide additional growth opportunities as wireline carriers enhance their networks with fiber optics and wireless carriers continue to upgrade to fourth generation (4G) data technology.

Water industry customers include rural water and waste water companies. Capital expenditure growth in this industry continues primarily as a result of the need to replace aging infrastructure and to meet higher standards for water quality. While government programs have traditionally provided grants and financing, some private lending opportunities for construction/interim financing have been created as a bridge to government grants or loans. With the continuing need for plant upgrades and expected limitations on the availability of government funds, we expect private lending to this industry to continue to grow.

Rural Infrastructure loans outstanding totaled \$14.5 billion at December 31, 2013 compared to \$13.9 billion at December 31, 2012.

### 2013 Performance

Rural Infrastructure average loan volume increased 9 percent to \$14.2 billion in 2013 compared to \$13.1 billion in 2012. Growth in Rural Infrastructure average loan volume resulted primarily from increased lending activity in the power supply industry and further market penetration in the electric distribution industry.

Rural Infrastructure net income increased 10 percent to \$229.6 million for 2013 from \$208.2 million for 2012. The increase in earnings primarily resulted from a \$47.5 million decrease in the provision for loan losses. Rural Infrastructure recorded a \$6.0 million provision for loan losses in 2013, compared to a \$53.5 million provision for loan losses in 2012. The 2013 provision reflects increased exposure due to growth in lending to rural energy customers, as described above. The 2012 provision primarily included reserves for credit challenges impacting specific communications and rural energy customers during that period.

Net interest income increased \$2.9 million in 2013 as compared to 2012, driven by the growth in average loan volume described above, and was somewhat offset by the impact of the continued low interest rate environment on returns on invested capital, our balance sheet positioning and investment securities, as well as lower lending spreads in certain sectors resulting from increased competition in the banking industry for the business of our customers. Noninterest income decreased by \$8.7 million primarily as a result of Insurance Fund refunds received in 2012 and lower arrangement fee income. A lower level of losses on early extinguishment of debt, including subordinated debt, partially offset these factors.

Overall credit quality in our Rural Infrastructure operating segment remains strong. Nonaccrual loans in the Rural Infrastructure segment decreased slightly to \$94.6 million at December 31, 2013 from \$99.7 million at December 31, 2012. Rural Infrastructure recorded net recoveries of \$1.1 million in 2013 as compared to \$1.2 million in 2012.

Rural Infrastructure operating expenses increased by \$7.0 million in 2013 due to the increases in Insurance Fund premiums and information technology expense, partially offset by the decline in general and administrative expense. Income tax expense in the Rural Infrastructure operating segment increased \$13.3 million primarily due to the increase in pre-tax earnings.

## Corporate Risk Profile

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Managing and optimizing risk are essential components of successfully operating our Bank. Our primary risk exposures are credit, interest rate, liquidity, operational and reputation. Credit risk is the risk of not collecting the amounts due on loans, investments or derivatives. Interest rate risk is the potential reduction of net interest income and the market value of equity as a result of changes in interest rates. Liquidity risk is the potential inability to repay obligations or fund borrowers on a timely basis. Operational risk is the risk of loss resulting from inadequate or failed processes or systems, breaches of internal controls or compliance requirements, the risk of fraud, and other operational matters. Reputation risk is the risk of loss arising from negative public opinion.

Business segments and support units have the responsibility of identifying, controlling and monitoring risks. Our Risk Management Group provides oversight of the Bank's enterprise risk management through measurement and control processes addressing the Bank's primary risk exposures. The following is a discussion of these risks, and our approach to managing them.

### *Credit Risk Management*

Credit risk exists in our lending, leasing, investing and derivatives activities. Credit risk in these activities arises from changes in a borrower's or counterparty's ability or willingness to repay funds borrowed or to meet agreed-upon obligations. Credit risk may be further impacted by changes in collateral values, changes in the prevailing economic environment, fraud, defaults on mortgages or other obligations which collateralize mortgage- and asset-backed investment securities, changes in the credit-worthiness of investment obligors or counterparties who insure or guarantee certain investment securities, and declines in the value of underlying collateral securing investment securities, primarily residential real estate.

We actively manage credit risk through a well-defined, Board-approved loan portfolio strategy, a structured and centralized credit approval process, a disciplined risk management process, and a sound credit administration program. We have established comprehensive credit guidelines and procedures to ensure consistency and integrity of information related to the credit risk in our loan, lease, investment and derivatives portfolios.

Various groups and committees within CoBank, including our Board of Directors, have a role in managing credit risk, as described below. Our Board of Directors establishes overall lending, investment, derivatives and reserve policies. It also approves the portfolio strategy and reviews loan volume, loan quality trends, significant high-concern or troubled loans, and the credit quality of our investment and derivatives portfolios.

The CoBank Loan Committee (CLC), which is appointed by the CEO, and includes the President, Chief Banking Officer, Chief Credit Officer and senior management of the Credit Group and the lending groups, holds ultimate credit authority as authorized by Board policy. The CLC delegates

lending authorities to specific committees or groups of individuals based on size of exposure and risk rating. The CLC also approves certain limits for investment obligors and derivative counterparties. It acts on individual credit actions or administrative matters and approves exceptions to exposure limits if conditions warrant.

The Credit Group is led by the Chief Credit Officer, who reports to the President. The Credit Group manages the credit approval process within concentration limits established for the loan portfolio pursuant to Board policies. As part of the credit approval process, it reviews assigned risk ratings for accuracy and conformity with our established guidelines, and approves limits with respect to investment obligors and derivative counterparties. It also manages significant high-risk or troubled loans.

The Risk Management Group is led by the Chief Risk Officer, who reports to the CEO. The Risk Management group includes the head of Internal Audit and the head of Asset Review, both of whom have a direct reporting responsibility to the Audit Committee of the Board of Directors. The Risk Management Group oversees development of the loan portfolio strategy, the analysis of the allowance for credit losses and other risk-based modeling and metrics. It provides independent reporting to the Board of Directors on the quality of the Bank's assets, the Bank's system of internal controls, and material findings of the Asset Review and Internal Audit Divisions. In addition, the Risk Management Group provides quarterly reporting on the Bank's risk appetite and exposures, as well as an annual risk assessment.

The Asset and Liability Committee (ALCO), which includes the CEO, President, Chief Banking Officer, Chief Operating Officer, Chief Financial Officer, Chief Risk Officer, Chief Credit Officer and Treasurer, oversees, among other things, credit risk within the investment portfolio. It also reviews counterparty credit risk arising from derivative transactions.

The Country Risk Committee (CRC) is appointed by the CEO, and includes the President, Chief Banking Officer, Chief Risk Officer and the Chief Credit Officer. It oversees the methodologies for setting country risk grades and establishing maximum country limits, as well as the approval of individual country risk grades and limits.

### **Credit Risk Related to Loans**

The key elements of our credit risk management related to lending include our portfolio strategy, the credit approval process, and the use of exposure and concentration limits, each of which is explained below.

#### Portfolio Strategy

The portfolio strategy provides overall guidance on lending activities and strategies over a three year planning horizon. The objectives of our portfolio strategy are to safely fulfill our lending mission, ensure appropriate portfolio diversification, and optimize returns based on risk and profitability, all within established capital parameters. Our lending mission includes supporting small, beginning and young farmers; local food programs; rural community development; and renewable energy projects. The portfolio strategy helps ensure that CoBank is inclusive in its outreach

to all marketplace segments whether it be through lending, investment or contribution activities.

As part of the annual business and financial planning process, the Board of Directors reviews and approves the Bank's portfolio strategy. Management analyzes performance with respect to the portfolio strategy quarterly and reports the results to the Board of Directors.

#### Credit Approval

The most critical element in managing and controlling risk in the extension of credit is the initial decision to make a loan and the resulting structure and terms of the relationship with the borrower.

We place significant emphasis on the evaluation and understanding of a borrower's business and management in the initial credit analysis and the approval process. We emphasize cash flow and repayment capacity as primary sources for repayment of loans, including cash generated from the sale of commodities as it relates to seasonal lending. Collateral is normally considered a secondary source of repayment. In circumstances where the credit decision places substantial reliance on collateral to repay the loans, independent appraisals may be used to assist in the collateral valuation. Such appraisals are conducted in accordance with FCA regulations and professional appraisal standards.

For wholesale lending within our Strategic Relationships operating segment, the earnings, capital and loan loss reserves of the Associations provide us a buffer from losses in their respective loan portfolios. Loans to our affiliated Associations are governed by a General Financing Agreement, as described on page 103.

With the exception of certain small-dollar lease transactions, no single individual is granted credit approval authority within CoBank. All approvals or credit actions require formal documentation.

Management assigns a risk rating to each borrower based on two measurements: probability of default (PD) and loss given default (LGD). The PD rating system uses a 14-point scale of 1 (highest quality) to 14 (lowest quality). The PD rating is primarily determined by the financial characteristics of the borrower and reflects the probability of default driven by several factors, including business risk, industry risk, management capability and financial condition. The LGD rating is intended to approximate the degree of potential loss in the event the borrower defaults.

#### Exposure and Concentration Limits

We use exposure limits to manage risk and volatility in the loan portfolio. Exposure to individual borrowers and related entities is managed through a risk matrix that considers the dollar exposure, type of exposure and risk rating of the borrower. Individual borrower exposures are typically established at the time of loan origination or renewal, with risk ratings formally reviewed at least annually. The dollar exposure, risk rating and type of credit extended further determine the delegated level of authority required to approve the credit. These individual borrower exposures are then further subject to total portfolio limits on exposure to different industries and/or countries. Exposure limits for different industries are reviewed quarterly while exposure limits for



different countries are reviewed annually. We allow for more frequent evaluation when appropriate. Exceptions to these exposure limits may be granted by the CLC or the CRC if conditions warrant.

We also manage lending credit exposures and concentrations by selling and purchasing loans. Our capabilities in selling and purchasing loans will continue to be critical to dynamically managing the portfolio, maintaining market discipline, meeting our customers' needs and fulfilling our mission.

While we believe these standards, processes and tools are appropriate to manage our credit risk, there is no assurance that significant deterioration in loan quality will not occur, which could reduce our future earnings.

We are limited to making loans and providing related financial services to eligible borrowers in certain specified industries, as mandated by the Farm Credit Act. As a result, we have a concentration of loans to the agricultural and rural infrastructure industries. The significant risk factors affecting credit conditions in these industries within each of our operating segments are described below.

#### Agribusiness

The relationship of demand for and supply of U.S. agricultural products in a global marketplace can significantly impact the volume, earnings and loan quality of our Agribusiness portfolio.

Changes in the prices and supplies of agricultural commodities can impact the profitability and loan quality of a portion of our Agribusiness customers. Volatility in prices and supplies of agricultural commodities result from, among other factors, seasonal and cyclical weather conditions; global production levels; changes in the production levels of ethanol; financial investment in the commodity futures markets by non-agricultural interests; and changing export markets. Market prices for food products also have a significant effect on a number of customers within our Agribusiness portfolio.

Major international events, including military conflicts; terrorism; political, geopolitical, currency and global economic disruptions; and trade agreements can affect, among other things, the price of commodities or products used or sold by our borrowers or their access to markets. In addition, biological or disease risk in human or livestock populations can impact the supply of and demand for agricultural products. Certain of our customers also have exposure to counterparties in the commodities exchange markets.

U.S. agriculture has historically received financial support from the U.S. government through direct payments, crop insurance and other benefits. However, congressional efforts to decrease the U.S. budget deficit will result in reduced federal support for certain agricultural programs. The Agricultural Act of 2014 (the Farm Bill), which established the U.S. government's agricultural, rural development and nutrition policy for the next five years, was signed into law in

February 2014 and eliminated direct payments while expanding certain forms of crop insurance. Although most of our customers do not generally receive direct support from federal programs, a significant reduction or elimination of such support in future Farm Bills could have a negative impact on the loan quality of certain borrowers, including Associations, who derive a significant share of their earnings from farmers and other producers who may be affected by such a reduction. Other political, legislative and regulatory activities may also impact the level or existence of certain government programs that support agriculture.

#### Strategic Relationships

The risk factors previously discussed in the "Agribusiness" section can also affect loan quality at Associations; however, the impact of such factors on farmers and other producers served by Associations may not be the same as the impact on cooperatives and other customers served by our Agribusiness operating segment. The loan quality of our Strategic Relationships portfolio is enhanced by our strong collateral position and the earnings, capital and loan loss reserves of the Associations, which provide us a buffer from losses in their respective loan portfolios.

#### Rural Infrastructure

Weakness in the general economy, and the rural economy in particular, can reduce industrial and residential demand for services and negatively affect customers in our Rural Infrastructure portfolio.

Fluctuating weather conditions, energy efficiency initiatives and protracted low levels of electricity demand can adversely affect our customers in the energy industry. The pace and degree of the restructuring of the electric energy industry in the United States may also impact future loan quality. Further, constraints on carbon emissions and other environmental standards could adversely impact energy customers.

The communications industry is affected by significant competition. Regulatory, legislative and technological changes may impact the future competitive position and markets for the communications industry. These factors may place downward pressure on the loan quality of certain sectors of the communications industry. In addition, decreased cash flows and the resultant impact on asset valuation, the inability to successfully integrate merged or acquired companies, or the lack of availability of debt and equity capital could adversely affect certain communications customers.

The water industry faces high capital expenditure requirements due to environmental regulation and aging infrastructure. While per capita residential water usage is declining due to conservation measures and increased use of water efficient appliances, rates continue to rise. Heavy reliance on user fees to build and maintain water infrastructure could adversely affect certain water customers.

## Credit Quality Conditions and Measurements in Our Loan Portfolio

The following table presents loans and related accrued interest receivable classified by management pursuant to our regulator's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

Loan Quality Ratios						
	December 31, 2013			December 31, 2012		
	Wholesale Loans <sup>(1)</sup>	Retail Loans <sup>(2)</sup>	Total Bank	Wholesale Loans <sup>(1)</sup>	Retail Loans <sup>(2)</sup>	Total Bank
Acceptable	100.00 %	96.77 %	98.43 %	100.00 %	95.73 %	97.91 %
Special Mention	-	1.76	0.86	-	2.20	1.08
Substandard	-	1.36	0.66	-	1.90	0.93
Doubtful	-	0.11	0.05	-	0.17	0.08
Loss	-	-	-	-	-	-
Total	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %	100.00 %

<sup>(1)</sup> Represents loans in our Strategic Relationships operating segment

<sup>(2)</sup> Represents loans in our Agribusiness and Rural Infrastructure operating segments

Our overall loan quality measures improved in 2013. The total amount of adversely classified loans ("Substandard", "Doubtful" and "Loss" loans) and related accrued interest decreased to 0.71 percent of total loans and related accrued

interest at December 31, 2013 compared to 1.01 percent at December 31, 2012, primarily due to improved credit quality within our Agribusiness operating segment.

## Summary of High-Risk Assets (\$ in Thousands)

December 31,	2013	2012	2011	2010	2009
Nonaccrual Loans	\$ 147,849	\$ 170,207	\$ 134,862	\$ 166,973	\$ 307,630
Accruing Loans 90 Days or More Past Due	972	2,513	114	681	15,235
Restructured Loans	-	-	-	-	-
Total Impaired Loans	148,821	172,720	134,976	167,654	322,865
Other Property Owned	2,246	5	469	7,398	282
Total High-Risk Assets	\$ 151,067	\$ 172,725	\$ 135,445	\$ 175,052	\$ 323,147

Total nonaccrual loans were \$147.8 million at December 31, 2013 compared to \$170.2 million at December 31, 2012. The decrease from 2012 to 2013 was primarily due to repayments from a small number of agribusiness customers. Our nonaccrual loans are typically composed of a relatively small number of customers, and as such, the balances can fluctuate period to period based on a similarly small number of transactions. Nonaccrual loans as a percent of our total loan portfolio were 0.20 percent as of December 31, 2013 compared to 0.24 percent at December 31, 2012. Over the past 10 years, nonaccrual loans have averaged 0.38 percent of the total loan portfolio.

Loan recoveries, net of charge-offs, totaled \$19.6 million in 2013 compared to net loan charge-offs of \$16.9 million in 2012. Gross charge-offs in 2013 were \$1.6 million compared to \$30.6 million in 2012, and were primarily associated with a small number of Agribusiness customers in both periods.

Our allowance for credit losses totaled \$614.7 million and represented 0.84 percent of total outstanding loans as of the end of 2013, compared to 0.83 percent at December 31, 2012. At December 31, 2013, our allowance for credit losses represented 1.85 percent of non-guaranteed loans outstanding,

excluding loans to Associations, compared to 1.87 percent at December 31, 2012.

As part of our overall assessment of risk in the loan portfolio and the allowance for credit losses as of December 31, 2013, we have considered a wide variety of factors, including volatile commodity prices and supplies; U.S. budget deficit actions that will place increasing pressure on various tax incentives and subsidies, including those related to renewable energy and agricultural commodity programs; a decline in the value of poorly-positioned power generation assets as a result of uncertain environmental policy, alternative energy sources, and weak industrial and commercial demand for power; continuing technological and business model changes related to the communications industry; operational and documentation risks; biological and disease risks and the attendant threats to livestock sectors; a significant level of industry, individual borrower and attributed concentration risk resulting from our defined mission of service to rural America; and the imprecision inherent in estimating losses within our loan portfolio.

See "Critical Accounting Estimates – Allowance for Credit Losses" on page 55 for a more complete description of

our process to determine the adequacy of our allowance for credit losses.

### **Credit Risk Related to Investments and Derivatives**

We minimize credit risk in our investment portfolio by investing primarily in securities issued or guaranteed by the U.S. government or one of its agencies. At year-end 2013, 43 percent of our \$21.7 billion investment portfolio consisted of securities that carry a full faith and credit guarantee of the U.S. government. Such securities include mortgage-backed securities (MBS) issued by the Government National Mortgage Association, Export-Import Bank of the United States securities and U.S. Treasury and other debt securities, including loans backed by the Small Business Administration. Approximately 53 percent of our investment portfolio consisted of securities issued by government agencies that carry the implicit backing of the U.S. government, including MBS issued by the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) and Farmer Mac.

The remaining 4 percent of our investment portfolio represents investments in FHA/VA non-wrapped “reperformer” MBS not further insured by Fannie Mae or Freddie Mac, non-agency MBS, asset-backed securities (ABS) and corporate bonds.

Certain of the investment securities acquired in the merger with AgBank included FHA/VA wrapped and non-wrapped “reperformer” MBS, which are investment securities where residential mortgage loans serving as collateral were cured after a default. The underlying loans supporting the FHA/VA wrapped “reperformer” MBS are approximately 90 percent government guaranteed or insured, and are further supported by guarantees from either Fannie Mae or Freddie Mac. These investment securities are included within our U.S. agency MBS portfolio. The underlying loans supporting the FHA/VA non-wrapped reperformer MBS are also approximately 90 percent government guaranteed or insured but have no guarantees from Fannie Mae or Freddie Mac.

Credit risk in our investment portfolio primarily relates to FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS. The portfolio of FHA/VA non-wrapped reperformer MBS carry unique credit risks, which stem from any potential deficiencies in documentation or lack of compliance with servicing requirements on underlying loans that could make such loans ineligible for guarantees or insurance.

Credit risk in our investment portfolio could also arise from the inability of guarantors and third-party providers of other credit enhancements, such as bond insurers or Farmer Mac, to meet their contractual obligations to us.

We recorded \$2.5 million of other-than-temporary impairment losses on investment securities in 2013, compared to \$17.0 million in 2012 and \$10.0 million in 2011. The credit quality of our investment portfolio as of December 31, 2013 and impairment losses on investment securities are more fully discussed in “Liquidity and Capital Resources” beginning on page 51.

Our counterparty credit risk arising from derivative transactions is managed within credit methodologies and limits approved by the CLC. Managing counterparty exposure

is more fully discussed in “Counterparty Exposure” on page 45.

### **Interest Rate Risk Management**

We are subject to interest rate risk, defined as the risk to future earnings and long-term market value of equity due to changes in interest rates. This risk primarily arises from our equity positioning and differences in the timing between the contractual maturities, repricing characteristics, and prepayments of our assets and the liabilities funding these assets. This risk can also arise from embedded caps in certain of our investments and differences between the interest rate indices used to price and fund our assets. Our asset/liability management objective is to manage the mix of interest-earning assets and interest-bearing liabilities to reduce interest rate risk and stabilize our net interest income while optimizing profitability and insulating shareholders’ equity from significant adverse fluctuations in market interest rates. While we actively manage our interest rate risk position within policy limits approved by the Board of Directors using strategies established by our ALCO, and within our risk appetite, there can be no assurance that changes in interest rates will not adversely impact our earnings and capital.

The following is a more detailed description of our primary interest rate risks and strategies used to mitigate those risks.

#### **Equity Positioning Risk**

Shareholders’ equity serves as an interest-free source of funding for the balance sheet and thus requires that we make decisions about the maturity mix of the assets funded by it. Using equity to fund short-term assets results in increased volatility of net interest income, whereas using equity to fund long-term assets results in increased volatility in the market value of our equity. During 2013, 2012 and 2011, we chose to use this equity to fund intermediate-term assets (generally, maturing equally over the next five years) to balance the risks to net interest income and market value of equity.

#### **Repricing Risk**

Mismatches in interest rate repricing of assets and liabilities arise from the interaction of customer business needs, our investment portfolio and the mix of liabilities funding these assets. In addition, we may also undertake funding strategies designed to maximize earnings on our asset/liability position in certain interest rate environments, including using short-term liabilities to fund longer-term assets. Any such strategies are managed within the established sensitivity limits discussed beginning on page 43.

Exposure to changes in the level and direction of interest rates is managed by adjusting the Bank’s mix of interest-sensitive assets and liabilities through various strategies and through the utilization of interest rate risk management products, including interest rate swaps and other financial instruments (derivatives). We do not use derivatives for speculative or trading purposes. Refer to page 44 for additional information related to derivatives.



## Prepayment/Extension Risk

Prepayment risk in our loan portfolio exists in loans that are considered fully prepayable, which represents approximately 21 percent of fixed-rate loans that can be prepaid without a fee. Prepayment risk in this portfolio results when intermediate and longer-term fixed interest rates fall and prepayments increase as borrowers refinance to a lower rate. Prepayments can adversely impact loan portfolio income to the extent prepayments exceed the level of fixed-rate callable debt in the portfolio. This funding can be called in lower-rate environments, thus allowing liabilities to reprice to a lower rate. Approximately 67 percent of our fully prepayable loan portfolio is funded with callable debt, which lowers prepayment risk.

The remaining 79 percent of fixed-rate loans contain, at a minimum, make-whole prepayment penalties. These provisions require a borrower to compensate us for the cost we incur in retiring debt funding associated with loan prepayments. This allows us to generally fund our loan assets with debt of similar maturities to manage the risk of prepayments in the loan portfolio.

Extension risk in the loan portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying loans to pay down at a slower rate than initially expected. In this scenario, loan portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended loans.

Prepayment risk in the investment portfolio results when long-term interest rates fall and prepayments increase as underlying borrowers refinance their mortgages to a lower rate. Prepayments adversely affect investment portfolio income in a falling interest rate environment because investments are partially funded with non-callable debt and any proceeds from prepaid investments will be reinvested at a lower interest rate. Prepayment risk in our investment portfolio is moderate based on the type and average life of securities. Purchases of MBS are currently subject to a price risk eligibility test based on a stressed interest rate environment. The test is designed to manage our exposure to prepayment risk at the time of investment purchase. In addition, our fixed-rate MBS (other than hybrid adjustable-rate mortgage securities), generally contain some embedded prepayment protection in the form of PAC (planned amortization class) bands. These PAC securities are structured so that principal payments are expected to follow a predetermined schedule as long as the prepayments of the underlying collateral fall within a prescribed band. Over time, these bands may erode resulting in an incremental increase in prepayment risk within the investment portfolio.

We also fund a portion of our fixed-rate prepayable investment portfolio with short-term liabilities and term fixed-rate callable debt that provide a partial hedge against investment prepayments in certain falling interest rate scenarios. The rate we pay on these liabilities reprices downward with a drop in short-term and intermediate-term interest rates. In addition, we are able to retire the short-term

liabilities if prepayments increase on the funded assets independent of movements in interest rates.

Extension risk in the investment portfolio occurs when long-term interest rates rise and prepayments decrease more than expected causing the underlying investment securities to pay down at a slower rate than initially expected. In this scenario, investment portfolio income will be negatively impacted as additional higher-rate term funding is required to continue to fund extended securities. Extension risk in the investment portfolio is moderate based on the type and average life of securities purchased. In the same way PAC bands protect against prepayment risk, they also serve to limit extension risk as the amortization of these securities is defined as long as prepayments of the underlying collateral fall within a prescribed band.

## Cap Risk

Cap risk is embedded in the floating-rate MBS in our investment portfolio and to a lesser extent floating-rate loans. When short-term interest rates rise, the interest rate paid by the floating-rate MBS or floating-rate loan may become capped and limit the amount of income paid by the asset while underlying funding costs are not capped. Exposure to cap risk is managed by monitoring the concentration of strike levels in our floating-rate MBS and floating-rate loans and related interest rate shock sensitivities. We also purchase interest rate caps and other derivatives to manage cap risk. In addition, we have the ability to reduce cap risk by selling our floating-rate investment securities.

## Basis Risk

Basis risk arises due to the differences between the interest rate indices used to price our assets and the indices used to fund those assets. We manage our basis risk through match funding, when possible, and using derivatives (primarily interest rate swaps) and other funding strategies. However, some basis risk will always exist as unanticipated loan volume changes cause an excess or shortage of some forms of funding.

## Measurement and Monitoring of Interest Rate Risk

We utilize several key risk measurement and monitoring tools to assist in the management of interest rate risk. These include interest rate gap analysis, duration gap analysis, sensitivity analysis of net interest income and market value of equity, and net interest income forecasting, each of which is described in further detail in the following pages.

### Interest Rate Gap Analysis

The interest rate gap analysis shown in the following table presents a comparison of interest-earning assets and interest-bearing liabilities in defined repricing timeframes as of December 31, 2013. The interest rate gap analysis is a static indicator that does not reflect future changes in repricing characteristics and may not necessarily indicate the sensitivity of net interest income in a changing interest rate environment.

## Interest Rate Sensitivity Analysis at December 31, 2013 (\$ in Millions)

	One Month or Less	Over One Month Through Six Months	Over Six Months Through One Year	Over One Year Through Five Years	Over Five Years and Not Rate Sensitive	Total
<b>Interest-earning Assets:</b>						
Floating-rate Loans:						
Adjustable-rate/Indexied-rate Loans	\$ 16,882	\$ 2,424	\$ 113	\$ 106	\$ -	\$ 19,525
Administered-rate Loans	11,656	-	-	-	-	11,656
Fixed-rate Loans:						
Fixed-rate Loans <sup>(1)</sup>	7,309	5,115	2,048	9,141	9,669	33,282
Fixed-rate Loans, Prepayable <sup>(2)</sup>	859	798	1,009	4,363	1,963	8,992
Nonaccrual Loans	-	-	-	-	148	148
Total Loans	36,706	8,337	3,170	13,610	11,780	73,603
Investment Securities	5,316	887	2,114	11,024	2,347	21,688
Total Interest-earning Assets <sup>(3)</sup>	\$ 42,022	\$ 9,224	\$ 5,284	\$ 24,634	\$ 14,127	\$ 95,291
<b>Interest-bearing Liabilities:</b>						
Callable Bonds and Notes	\$ 15	\$ 30	\$ 33	\$ 3,237	\$ 3,451	\$ 6,766
Noncallable Bonds and Notes <sup>(4)</sup>	26,047	13,338	8,032	21,411	11,022	79,850
Bonds, Medium Term Notes and Discount Notes <sup>(4)</sup>	26,062	13,368	8,065	24,648	14,473	86,616
Effect of Interest Rate Swaps, Forwards, Futures, etc.	13,200	(2,564)	(1,875)	(8,661)	(100)	-
Cash Investment Services Payable and Other						
Interest-bearing Liabilities	2,746	-	-	-	-	2,746
Total Interest-bearing Liabilities	\$ 42,008	\$ 10,804	\$ 6,190	\$ 15,987	\$ 14,373	\$ 89,362
<b>Interest Rate Sensitivity Gap (Total Interest-earning Assets less Total Interest-bearing Liabilities)</b>						
Cumulative Gap	\$ 14	\$ (1,580)	\$ (906)	\$ 8,647	\$ (246)	\$ 5,929
Cumulative Gap/Total Interest-earning Assets	0.02 %	(1.64) %	(2.59) %	6.48 %	6.22 %	

<sup>(1)</sup> Prepayment penalties apply that compensate CoBank for economic losses

<sup>(2)</sup> Freely prepayable or only minimal prepayment penalties apply

<sup>(3)</sup> Does not include \$1.3 billion in cash as of December 31, 2013

<sup>(4)</sup> Includes subordinated debt

The preceding table excludes \$1.3 billion of cash as of December 31, 2013. While cash is not considered an interest-earning asset, we include our cash balance in the sensitivity analysis discussed below, as we would invest such funds in overnight or other highly-liquid investments if market rates increased. Our interest rate sensitivity position at December 31, 2013 may be characterized as neutral to net interest income risk and slightly “liability sensitive” to market value of equity risk. Our net interest income will generally be favorably impacted in a stable or gradually rising interest rate environment or when the slope of the yield curve is positive. This position will be unfavorably impacted in a rapidly rising short-term interest rate environment or when the slope of the yield curve is less positive or negative. We maintain a neutral to slightly liability-sensitive position in anticipation of stable short-term rates and a positively-sloped yield curve over the near term.

We continually monitor interest rates and have the ability to reposition our balance sheet as a result of anticipated interest rate changes. For example, if we expected a more immediate and meaningful increase in short-term interest rates, we could shift our position to an asset-sensitive position in short order.

#### Duration Gap Analysis

The duration gap is the difference between the estimated durations of assets and liabilities, which is calculated using an asset/liability model. The duration gap summarizes the extent to which estimated cash flows for assets and liabilities are matched, on average, over time. A positive duration gap means there is increased market value exposure to rising interest rates over the long-term because it indicates that the duration of our assets exceeds the duration of our liabilities. A negative duration gap indicates increased exposure to declining interest rates over the long-term because the duration of our assets is less than the duration of our liabilities. We apply the same interest rate process, prepayment models, and volatility assumptions to generate the portfolio duration gap that we use in our sensitivity analysis, which is discussed below. The duration gap provides a relatively concise and simple measure of the interest rate risk inherent in our balance sheet, but it is not directly linked to expected future earnings performance. Our aggregate positive duration gap was 1.3 months at December 31, 2013 and 2.6 months at December 31, 2012.

#### Sensitivity Analysis

We use asset/liability models to evaluate the dynamics of our balance sheet and to estimate earnings volatility under different interest rate scenarios. Our analysis includes calculating the impact of significant increases or decreases in interest rates on net interest income, over a 12 month period, and the estimated market value of equity. Our modeling practices have been consistently applied in each of the three years presented in this report.

Our analysis estimates the effect of immediate and sustained parallel shifts in the yield curve (called “shocks”) of 100, 200 and 300 basis points. Pursuant to regulation and our

Board policy, when the three-month Treasury rate is below 4 percent, as it was for each of the periods presented, we perform a shock equal to one-half the three-month Treasury rate. This resulted in downward shocks of -4 basis points, -3 basis points, and -1 basis point at December 31, 2013, 2012, and 2011, respectively. Due to extremely low short-term interest rates, these downward shock scenarios, while required by policy, are not considered meaningful. When analyzing net interest income at risk, we also estimate the effect of gradual upward or downward changes in market rates (called “ramps”) over a one year period of 100, 200 and 300 basis points, where possible.

The following table summarizes the impact of interest rate changes on net interest income and the market value of equity. Market value of equity is the net present value of all future cash flows discounted to a valuation date, using discounting factors derived from observed market rates on the same valuation date. In all cases, the underlying assumptions and hedging strategies are held constant so that results are comparable from scenario to scenario. However, actual results would differ to the extent changes in strategy were undertaken to mitigate the unfavorable impact of interest rate changes.

Net Interest Income at Risk			
December 31,	2013	2012	2011
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 4 bp shock	(0.1) %	n/a	n/a
- 3 bp shock	n/a	(0.1) %	n/a
- 1 bp shock	n/a	n/a	-
+ 100 bp shock	0.3	0.6	-
+ 200 bp shock	0.1	(0.7)	(0.3) %
+ 300 bp shock	(0.1)	(2.0)	(0.9)
- 300 bp ramp	n/a	n/a	n/a
- 200 bp ramp	n/a	n/a	n/a
- 100 bp ramp	n/a	n/a	n/a
+ 100 bp ramp	0.3	1.2	0.6
+ 200 bp ramp	0.2	1.5	1.3
+ 300 bp ramp	-	1.4	1.9
Market Value of Equity at Risk			
December 31,	2013	2012	2011
Scenario:			
- 300 bp shock	n/a	n/a	n/a
- 200 bp shock	n/a	n/a	n/a
- 100 bp shock	n/a	n/a	n/a
- 4 bp shock	0.1 %	n/a	n/a
- 3 bp shock	n/a	0.3 %	n/a
- 1 bp shock	n/a	n/a	-
+ 100 bp shock	(3.0)	(4.7)	(4.1) %
+ 200 bp shock	(6.0)	(10.0)	(8.8)
+ 300 bp shock	(9.0)	(15.4)	(13.3)



Our net interest income is only slightly impacted in the rising interest rate scenarios due to a well-matched interest sensitive asset and liability balance sheet position over the next 12 months. Our Board limits the amount of adverse change to net interest income and market value of equity under a 200 basis point rate shock. The limit for market value of equity was 15 percent and the limit for net interest income was 10 percent for all three years presented. At December 31, 2013, 2012 and 2011, we were within our policy limits as detailed in the preceding table.

#### Forecasting

We update our asset/liability model monthly with information on loans, investment securities, borrowings and derivatives. This “current position” is the starting point for all analysis. The current position data is then combined with base case business plan assumptions and independent, third-party economic forecasts to derive our estimates of future net interest income. Generally, we set assumptions on pricing, maturity characteristics and funding mix using trend analysis of actual asset and liability data.

Net interest income forecasts are derived utilizing different interest rate scenarios. As noted previously, we obtain independent market interest rate projections when preparing our forecasts. These interest rate projections are designed around economic forecasts that are meant to estimate the most likely path of interest rates for the planning horizon and alternate views of a rapidly expanding economy, and a dramatically slowing economy. In addition, we review scenarios based on the market’s implied forward rates and unchanged rates. We also review the impact on net interest income of parallel and nonparallel shifts in the yield curve over different time horizons.

#### Use of Derivatives

We use derivatives as an integral part of our interest rate risk management activities. To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. The notional amounts of derivatives, weighted average interest rates to be received and paid, and fair values at December 31, 2013, are shown in the following table. We also discuss derivatives in Note 12 to the accompanying consolidated financial statements.

#### Derivative Financial Instruments at December 31, 2013 (\$ in Millions)

Derivative Product	Notional Amount	Weighted Average Receive Rate	Weighted Average Pay Rate	Fair Value
Receive Fixed Swaps	\$ 15,733	2.27 %	0.18 %	\$ 492
Receive Fixed				
Amortizing Swaps	1,931	2.57	0.23	26
Pay Fixed Swaps	2,387	0.22	1.58	(18)
Pay Fixed				
Amortizing Swaps	1,931	0.23	2.21	2
Interest Rate Options	2,684	-	-	29
Foreign Currency				
Spots and Forwards	279	-	-	(1)
Total	\$ 24,945	1.90 %	0.51 %	\$ 530

The following section includes a summary of our derivatives portfolio by strategy and further explanation of each strategy.

#### Notional Amounts of Derivative Financial Instruments by Strategy (\$ in Millions)

December 31,	2013	2012	2011
Liquidity Management	\$ 10,800	\$ 13,304	\$ 14,364
Equity Positioning	2,545	2,489	2,903
Options Risk Management <sup>(1)</sup>	2,423	2,880	1,850
Customer Transactions	8,945	7,445	6,193
Foreign Currency Risk			
Management <sup>(2)</sup>	232	243	243
Total	\$ 24,945	\$ 26,361	\$ 25,553

<sup>(1)</sup> Excludes \$261 million, \$169 million and \$149 million of interest rate options at December 31, 2013, 2012 and 2011, respectively, which are classified as customer transactions.

<sup>(2)</sup> Excludes \$47 million, \$49 million and \$56 million of foreign currency spot and forward contracts at December 31, 2013, 2012 and 2011, respectively, which are classified as customer transactions.

The total notional amount of our derivatives portfolio decreased by \$1.4 billion in 2013. The decrease is primarily due to reduced usage of derivatives for purposes of managing our liquidity. Over the past three years, market conditions have allowed for better execution of term floating-rate debt instead of issuing term fixed-rate debt and using interest rate swaps to transform such debt to a floating rate. An increasing level of customer derivative activity somewhat offset this impact.

### Liquidity Management

Interest rate swaps are executed to improve liquidity, primarily by effectively converting specific longer-term fixed-rate bonds and notes into floating-rate debt indexed to LIBOR or similar short-term rates. The fixed rate received on the swap largely offsets the fixed rate paid on the associated debt leaving a net floating rate payment on the swap. This allows us to issue longer-term debt and still match fund the predominantly short-term repricing nature of our interest-sensitive asset portfolio. Liquidity risk management is discussed further beginning on page 46.

### Equity Positioning

We also use interest rate swaps to manage interest rate risk as it relates to investment of our equity. If the cash flows of loans and investments on the balance sheet do not create the targeted maturity for the investment of our equity, we enter into receive-fixed interest rate swaps to produce the desired equity investment maturity profile.

### Options Risk Management

In the course of managing risk in our investment portfolio, and to a lesser extent our loan portfolio, we periodically hedge cap risk embedded within our floating-rate investments and loans by entering into derivative transactions.

### Customer Transactions

Derivatives are offered to customers as a service to enable them to modify or reduce their interest rate and foreign exchange risk by transferring such risk to us. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties.

### Foreign Currency Risk Management

We enter into foreign exchange spot and forward contracts to manage currency risk on our relatively nominal amount of loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon the repricing or maturity date of the loan.

### **Counterparty Exposure**

The use of derivative instruments exposes us to counterparty credit risk. Credit risk associated with derivatives is measured based on the replacement cost that would be incurred should the counterparties with contracts in a net gain position with respect to CoBank fail to perform. We minimize this risk by diversifying our derivative positions among various counterparties, using master netting agreements, and requiring collateral with zero thresholds and daily posting to support credit exposures with active counterparties. We evaluate the creditworthiness of each counterparty, establishing individual credit exposure limits, and deal exclusively with derivative counterparties that have an investment grade credit rating from a major credit rating agency. In addition, we monitor counterparty credit default swap spreads and other market-related information which may indicate reduced creditworthiness of a counterparty. Credit default swap spreads are taken into account in establishing counterparty limits.

We measure counterparty credit risk daily based on the current fair market values of our derivative positions. Personnel who are independent of the derivative portfolio management function monitor the derivative exposures against approved limits. Exceptions to approved limits, along with a plan detailing actions to address limit overages, are reported to the CLC. Changes to the counterparty limits must be approved by the CLC.

We also perform stress tests on the derivative portfolio using asset/liability models to analyze the potential effects of market rate changes on fair value, including extreme rate changes. The forward interest rate curves used to project the future expected cash flows for the derivative positions are modeled under potential scenarios which increase and decrease interest rates within a 99 percent confidence interval. These extreme rate scenarios are then used to further evaluate potential counterparty credit risk and to establish placement limits.

Notwithstanding our credit evaluation process and the maintenance of collateral agreements with our derivative counterparties, the failure of a counterparty to perform on its obligations could negatively impact our earnings. Furthermore, although our credit evaluations consider the possibility of default by a counterparty, our ultimate exposure to default by a counterparty could be greater than expected.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act) requires many derivative transactions to be cleared through a central clearinghouse and traded on regulated exchanges or other multi-lateral platforms. As required under the Dodd-Frank Act, the Commodity Futures Trading Commission considered and exempted System institutions from certain of these new requirements. As a result, CoBank currently transacts our derivatives directly with counterparties and retains exposure to them, which we mitigate as described above.

The following table details the notional amount of our derivatives and related exposure to dealer counterparties classified by their Standard & Poor's Rating Services (S&P) credit rating as of December 31, 2013.

Derivative Counterparty Exposure (\$ in Millions)					
	AAA		AA		A Below A
Exposure to Counterparties					
in Net Gain Position	\$	-	\$	240	\$ 323 -
Collateral Held				238	318 -
Exposure, Net of Collateral	\$	-	\$	2	\$ 5 -
Total Notional Amount	\$	-	\$	9,303	\$ 11,180 -
Total Number of					
Counterparties		-		6	12 -

The notional amount of our derivatives and related exposure to customer counterparties were \$4.5 billion and \$89.6 million, respectively, at December 31, 2013 compared to \$3.7 billion and \$189.0 million, respectively, at December 31, 2012. The increase in the notional amount of customer derivatives was driven by their increased usage of derivatives to lock in fixed rates in the low interest rate environment. Customer derivative agreements are secured through our loan agreements.

## Liquidity Risk Management

We must continually raise funds to provide credit and related services to customers, repay maturing debt obligations and meet other obligations. Our primary sources of liquidity are the ability to issue Systemwide Debt Securities and the use of available cash. Additionally, if necessary, we could convert high credit quality liquid investments to cash.

We monitor our liquidity position by assuming no ability to issue debt and calculating the number of days into the future we could meet maturing debt obligations by using available cash and liquidating eligible investments. System banks are required by regulation to maintain a minimum of 90 days of liquidity (cash and readily marketable investments generally discounted by 5 to 10 percent of market value) on a continuous basis and to establish an incremental liquidity reserve. As part of the merger with AgBank, we committed to maintain a minimum of 130 days liquidity. Additionally, if days liquidity were to fall below 150 for any five consecutive day period through December 31, 2014, the Bank must notify the FCA and submit to them a written plan to restore and maintain the 150 days level. At December 31, 2013, our liquidity was 181 days, compared to 204 days at December 31, 2012. During 2013, we averaged 194 days of liquidity compared to an average of 190 days in 2012.

In April 2013, the FCA published a final rule designed to strengthen liquidity risk management at System banks, improve the quality of assets in their liquidity reserves, and bolster the ability of the System banks to fund their obligations and continue operations during times of economic, financial, or market adversity. The new regulations require each System bank to maintain a three-tiered liquidity reserve. The first tier consists of a sufficient amount of cash and cash-like instruments to cover each bank's financial obligations for 15 days. The second and third tiers contain cash and highly liquid instruments sufficient to cover each bank's obligations for the next 15 and subsequent 60 days, respectively. In addition, the banks are required to establish an incremental liquidity reserve comprised of cash and eligible investments, which can be drawn upon during an emergency and which is sufficient to cover each bank's liquidity needs beyond 90 days. CoBank has established a minimum liquidity standard of 150 days, which is 60 days greater than the 90 days resulting from the tier one through tier three regulatory standards. These changes did not materially impact the Bank's management of liquidity as these new requirements did not differ significantly from our existing liquidity management practices.

As a result of the System's credit quality and standing in the capital markets as a GSE, we have traditionally maintained ready access to debt-funding, notwithstanding volatility in the credit markets and negative credit rating actions by rating agencies relative to the long-term U.S. sovereign credit rating and the System's long-term debt rating, as discussed in "Other Risk Factors" beginning on page 48.

Our liquidity management objectives are to meet maturing debt obligations, provide a reliable source of funding to borrowers, provide additional liquidity if market conditions deteriorate and fund operations on a cost-effective basis. Approximately 60 percent of our interest-earning assets mature or reprice in one year or less with 44 percent maturing

or repricing in one month or less. Match-funding these assets from a maturity perspective would create an unacceptable concentration of short-term liabilities. Instead, we manage this risk by issuing longer-term debt and swapping this debt from a fixed to floating rate using derivative transactions, as previously described, or by issuing term floating-rate debt. By so doing, we reduce the need to fund maturing liabilities on any given business day to a more manageable level. While we believe that sufficient resources are available to meet liquidity management objectives through our debt maturity structure, holdings of liquid assets and access to the capital markets via the Funding Corporation, the volatility of our loan volume causes our liquidity needs to vary significantly from day to day.

The amounts and maturities of our debt obligations are set forth in the table below.

Debt Maturities as of December 31, 2013 (\$ in Millions)

	Book	Par
1 Day <sup>(1)</sup>	\$ 2,746	\$ 2,746
2-7 Days	53	53
8-30 Days	3,095	3,095
31-90 Days	6,821	6,819
91-180 Days	9,092	9,082
181-365 Days	13,846	13,813
1-5 Years	38,681	38,084
Over 5 Years	15,028	14,878
Total	\$ 89,362	\$ 88,570

<sup>(1)</sup> Includes \$424.6 million of cash collateral payable to derivative counterparties that does not have a stated maturity date.

See Notes 6 and 16 to the accompanying consolidated financial statements for information regarding interest rates and maturities of Systemwide Debt Securities, and contingencies.

Due to the often volatile funding needs of certain customers, in particular Agribusiness customers impacted by seasonal borrowing requirements and changing commodity prices and supplies, we provide a significant amount of revolving loan commitments. At December 31, 2013, commitments to extend credit and commercial letters of credit were \$27.1 billion and \$476.6 million, respectively. In addition, we provide standby letters of credit, which guarantee payment or performance of an obligation. As of December 31, 2013, the maximum potential amount of future payments that we may be required to make under standby letters of credit was \$1.5 billion. Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. See Note 11 to the accompanying consolidated financial statements for a full discussion of financial instruments with off-balance sheet risk.

Our liquidity plan covers certain contingencies in the event our access to normal funding sources is disrupted. We purchase only high credit quality investments to ensure our investment portfolio is readily marketable and available to



serve as a source of contingent funding. Our investment portfolio may also be used as collateral to borrow funds to cover maturing liabilities. Pursuant to FCA regulations, non-agency MBS and ABS, which include our FHA/VA non-wrapped reperformer MBS, that are no longer rated triple-A by at least one major rating agency or whose market value is less than 80 percent of book value must be excluded from our liquidity reserve. As a result, as of December 31, 2013, \$757.0 million of securities were not included in our liquidity reserve. Another \$232.3 million of investment securities, primarily representing Farmer Mac MBS, are not included in our liquidity reserve as of December 31, 2013, pursuant to regulation.

We have identified certain portions of our loan portfolio that we believe could be sold or participated in the event our access to normal funding mechanisms is disrupted. These loans serve as an additional source of contingent funding. We also maintain uncommitted lines of credit with various financial institutions that could provide liquidity during unanticipated short-term disruptions in funding. However, it is uncertain whether we would be able to sell or participate loans or fully utilize uncommitted lines of credit in the event of a systemic funding disruption.

An additional source of liquidity is cash provided by our operating activities (primarily generated from net interest income in excess of operating expenses), which totaled \$903.1 million, \$884.0 million and \$952.7 million in 2013, 2012 and 2011, respectively.

The assets of the Insurance Fund would be used to repay maturing Systemwide Debt Securities, to the extent available, if no other sources existed to repay such debt. In September 2013, the Insurance Corporation entered into an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank would advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation will use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks' ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.0 billion and terminates on September 30, 2014, unless otherwise extended. Each funding obligation of the Federal Financing Bank is subject to various terms and conditions, including collateralization, and, as a result, there can be no assurance that funding will be available when needed by the System.

### ***Operational Risk Management***

Operational risk is inherent in all business activities and the management of such risk is important to the achievement of our objectives. Operational risk represents the risk of loss resulting from conducting our operations, including the execution of unauthorized transactions by employees; errors relating to loan documentation, transaction processing and technology; the inability to perfect liens on collateral; breaches of internal control and information systems; and the risk of fraud by employees or persons outside the Bank. This risk of loss also includes potential legal actions that could arise as a result of operational deficiencies, noncompliance

with regulatory standards, employee misconduct or adverse business decisions. In the event of a breakdown in the internal control system, improper access to or operation of systems or improper employee actions, the Bank could incur financial loss or face regulatory action.

We utilize a risk management framework, business policies and processes, and employee training and disclosures to manage operational risk. Under this framework, business segments and support units have direct and primary responsibility and accountability for identifying, controlling and monitoring operational risk. Managers maintain controls with the objective of providing proper transaction authorization and execution, proper system operations, safeguarding of assets from misuse or theft, fraud monitoring and ensuring the reliability of financial and other data. Employees receive regular training on business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. Employees are also subject to standards of conduct requirements in the performance of their job responsibilities, including the periodic disclosure of potential conflicts of interest. We also mitigate operational risk through the use of insurance coverages.

Information security risk at financial institutions has increased in recent years as a result of the proliferation of new technologies and the increased activities of organized crime, hackers and other external parties. CoBank and its customers, like many other financial institutions and their customers, have been the target of cyber-attacks aimed at committing fraud. Cybersecurity and the continued development and enhancement of our controls, processes and systems to protect our information systems and data remain a priority for CoBank. To date we have not experienced any material losses relating to cyber-attacks. Although we believe we have robust information security procedures and controls, our information systems, as well as those our customers use to access our services, may become the target of further cyber-attacks, which could result in material losses. Our risk and exposure to cyber-attacks remain heightened, in part due to the evolving nature of such attacks.

Business continuity and disaster recovery planning are important to effectively manage our operational risks. Each critical business unit, as well as our Information Technology Division, is required to develop, maintain and test such plans at least annually to ensure that continuity and recovery activities, if needed, could sustain critical functions including systems and information supporting customers and business operations. While we believe that we have designed effective business continuity policies and procedures, there is no absolute assurance that business disruption or operational losses would not occur in the event of a disaster.

Our Risk Management Group is responsible for coordinating the completion of ongoing risk assessments and ensuring that operational risk management is integrated into business decision-making activities. In addition, this group, in coordination with the Audit Committee of the Board of Directors, determines the scope and level of review performed by the internal audit and asset review functions. Our internal audit function validates the system of internal controls through

risk-based, regular and ongoing audit procedures, and reports on the effectiveness of internal controls to executive management and the Audit Committee of the Board of Directors. In addition, the CEO reports annually to the Audit Committee of the Board of Directors on the current state of the Bank's risks and controls. The asset review function validates the credit administration and documentation of individual assets held by the Bank.

To enhance our governance and internal controls, we apply policies and procedures that mirror the material provisions of the Sarbanes-Oxley Act of 2002, including section 404, *Management Assessment of Internal Controls Over Financial Reporting*.

### **Reputation Risk Management**

Reputation risk is the risk to earnings, capital, and mission fulfillment arising from the loss of confidence, trust and esteem among customers, investors, partners, policymakers, shareholders, other key stakeholders, and the public at large. Like all businesses, the Bank is subject to a wide variety of reputation risks both within and outside its control, including credit difficulties with individual customers or industries, business disputes, lawsuits, credit market disruptions, regulatory events and public allegations of misconduct against employees. As a member of the System, the Bank could be indirectly impacted by events that damage the reputation of another System entity. Competitors could engage in public criticism of the Bank and the System in an attempt to limit our market activities and lending authorities.

The Board of Directors and management regard the Bank's reputation as a critical asset and have implemented a number of policies, procedures and programs to ensure it is well protected. The controls and processes surrounding credit risk, interest rate risk, liquidity risk and operational risk also mitigate reputation risk by lowering the likelihood of significant problems in each of those areas. In addition, the Bank has a formal crisis communications plan in place in order to help it manage communications with stakeholders if an unplanned, reputation-impacting event occurs. The Bank also has a variety of initiatives in place to ensure that customer-owners are communicated with openly and have access to the information they need to accurately evaluate the Bank's overall business and financial performance. Furthermore, customers, Farm Credit partners and others have regular access to members of the Board of Directors and management through numerous meetings and events held by the Bank throughout the year.

We place considerable emphasis on ethical behavior and ensure that our directors and employees receive regular training related to business ethics, fraud identification and prevention, compliance with laws and regulations, and information security. In addition, as discussed on page 148 each year all employees certify their compliance with our Associate Responsibilities and Conduct Policy. Senior officers and other senior professionals with financial reporting or critical decision making responsibilities also annually certify compliance with the Bank's code of ethics. Finally, the Bank actively supports and participates in the System's reputation

management committee, which consists of representatives from Farm Credit banks and Associations.

## **Other Risk Factors**

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### **Joint and Several Liability for the Debt of the Farm Credit System**

Farm Credit System banks and Associations are not authorized to accept deposits and therefore cannot use deposits as a funding source. Instead, banks raise funds for their operations primarily through Systemwide Debt Securities issued on the banks' behalf by the Funding Corporation. Systemwide Debt Securities are the joint and several liabilities of the System banks and are not obligations of, nor are they guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks. Under the Farm Credit Act, each System bank is primarily liable for the portion of the Systemwide Debt Securities issued on its behalf. At December 31, 2013, we were primarily liable for \$85.7 billion of Systemwide Debt Securities. Additionally, each System bank is contingently liable for Systemwide Debt Securities of the other System banks. At December 31, 2013, the total aggregate principal amount of the outstanding Systemwide Debt Securities was \$207.5 billion.

Although the System banks have established mutual covenants and measures, which are monitored on a quarterly basis, there is no assurance that these would be sufficient to protect a System bank from liability should another System bank default and the Insurance Fund be insufficient to cure the default. See Note 6 to the accompanying consolidated financial statements for a more complete description of the interbank agreements among the System banks.

The Insurance Fund, which totaled \$3.5 billion as of December 31, 2013, is available from the Insurance Corporation to ensure the timely payment by each System bank of its primary obligations on Systemwide Debt Securities and can also be used by the Insurance Corporation for its operating expenses and for other mandatory and permissive purposes. Under the Farm Credit Act, before joint and several liability can be invoked, available amounts in the Insurance Fund would first be exhausted. There is no assurance, however, that the Insurance Fund would have sufficient resources to fund a System bank's defaulted obligations. If the Insurance Fund was insufficient, then the remaining System banks would be required to pay the default amount in proportion to their respective available collateral positions. Available collateral approximates the amount of total shareholders' equity of the System banks.

To the extent we must fund our allocated portion of another System bank's portion of the Systemwide Debt Securities due to a default, our earnings and total shareholders' equity would be reduced, possibly materially. The Insurance Corporation does not insure any payments on our subordinated debt, preferred stock or common stock. See Note 6 to the accompanying consolidated financial statements for more information about the Insurance Fund.

## **Reforms Impacting Government Sponsored Enterprises or Tax-Exempt Business Activities Could Have an Adverse Impact on our Cost Structure**

The System is a GSE and, as a member of the System, CoBank benefits from ready access to debt funding and favorable debt-funding costs. Our individual credit ratings are also positively impacted by the GSE status of the System. In addition, as provided in our charter, portions of our business activities, including lending to Associations, are exempt from many forms of taxation, including federal income taxes.

As a direct result of the financial difficulties experienced by the housing-related GSEs, with both Fannie Mae and Freddie Mac having been placed into conservatorship by the U.S. government, GSE status has been and will continue to be a topic of debate and concern to various stakeholders, including the public and Congress. Congressional deliberations over structural reform related to the housing-related GSEs began in 2011 and are likely to continue for a number of years. The Farm Credit System has not been the subject of this specific congressional scrutiny, nor is it subject to the jurisdiction of the same congressional committees as the housing-related GSEs. However, we believe there is at least some risk that further efforts to regulate GSEs could impact the System's status or erode some of the GSE-related benefits that it currently enjoys, including favorable funding costs and funding flexibility.

The current debate on federal income tax reform could ultimately lead to the elimination of the tax-exempt status of certain of our business activities, which would increase the amount of income tax we are required to pay.

## **Our Funding Costs Could Be Negatively Impacted by Downgrades of the Long-Term U.S. Sovereign Credit Rating and the System's Long-Term Debt Rating**

As a member of the System, we have historically benefited from the favorable funding costs and funding flexibility associated with the debt securities issued through the Funding Corporation. The credit ratings of GSEs, including the System, are influenced by the sovereign credit rating of the United States. In 2011, S&P downgraded the long-term sovereign credit rating of the United States from AAA to AA+. As a result, S&P also lowered its long-term debt rating of the System from AAA to AA+. The ratings of individual System banks rated by S&P, including CoBank, were not affected. Both Moody's and Fitch currently maintain the triple-A ratings for U.S. government and agency securities. To date we have continued to access the funding necessary to support our lending and business operations. However, the risk of downgrades by S&P, Moody's, and Fitch is heightened given the current debate around U.S. government deficits and the debt ceiling. Any future downgrades could negatively impact funding costs, earnings and funding flexibility for CoBank and other System institutions.

## **Our Funding is Dependent Upon the System's Ability to Access the Capital Markets**

The primary source of liquidity for CoBank and the other System institutions is the ability to issue Systemwide Debt Securities. This access has provided the System with a

dependable source of low cost debt. The System's ability to continue to issue Systemwide Debt Securities depends, in part, on the conditions in the capital markets at that time, which is outside the System's control and creates a funding risk for all System banks. As a result, the System cannot make any assurances that it will be able to issue on CoBank's behalf low cost debt or any debt at all. If the System cannot issue low cost debt or cannot access the capital markets, CoBank's funding would be negatively impacted, which would have a negative effect on our financial condition and results of operations, possibly materially.

## **We are Subject to Liquidity Risk with Respect to Certain Investments and Derivatives**

We are subject to liquidity risk in the course of our investing activities, particularly with respect to our investments in non-agency MBS and ABS, FHA/VA non-wrapped reperformer MBS and corporate bonds, which together represent approximately 4 percent of our investment securities held for liquidity. As a result of volatile market conditions, it could be difficult to sell such investments, if the need arises, and the discounts from face value would likely be significant. In addition, because of the inherent uncertainty of determining the fair value of investments that do not have a readily available market value, the fair value of our investments may differ significantly from the values that would have been used had a ready market existed for the investments.

Our derivative contracts require the Bank or its counterparties to post cash or securities as collateral when the fair values of the derivatives change based on changes in interest rates. The collateral exchanged between parties occurs daily with zero posting thresholds for all dealer counterparties. As a result of these derivative contracts, we are exposed to liquidity risk when changes in interest rates require us to post collateral to our counterparties. As of December 31, 2013, our counterparties had posted \$424.6 million in cash and \$132.5 million in securities as collateral with us. At December 31, 2013, a parallel increase of 2 percentage points in the U.S. dollar LIBOR/swap curve would have required us to return approximately 30 percent of the collateral currently posted with us by our counterparties.

## **CoBank and its Affiliated Associations Face Intense Competition**

CoBank and its affiliated Associations face intense competition, primarily from commercial banks, thrift institutions, insurance companies, finance companies and mortgage banking companies. Future results may become increasingly sensitive to fluctuations in the volume and cost of lending activities. There can be no assurance that CoBank and its affiliated Associations will be able to continue to compete successfully in the markets they serve.



## **Regulatory Reforms Could Adversely Impact System Banks, Including CoBank, and Associations**

Under the Dodd-Frank Act, which was signed into law in 2010, the federal banking agencies, the U.S. Securities and Exchange Commission, the Commodity Futures Trading Commission and a variety of other regulatory agencies are required to adopt a broad range of new rules and regulations that will significantly reform the supervision and regulation of the financial services industry. These federal agencies have been given significant discretion in drafting and implementing rules and regulations, and consequently, much of the impact of the Dodd-Frank Act may not be known for many more months or years. The Dodd-Frank Act largely preserves the authority of the FCA as the System's regulator by excluding System institutions from certain of the law's provisions. It is possible that the FCA might choose to adopt by regulation some reforms for System institutions that are similar to those provided for other financial institutions in the Dodd-Frank Act. Should the FCA adopt similar reforms, it is not clear to what extent, if any, such reforms would impact us.

Additionally, the Basel Committee on Banking Supervision (the Basel Committee) released consultative proposals in 2009 aimed at strengthening global capital and liquidity regulations. The Basel Committee adopted revised versions of the consultative proposals as definitive frameworks in 2010, and made further revisions in 2011. This framework is often referred to as "Basel III." In 2012, the U.S. banking agencies released notices of proposed rulemakings that would substantially amend their regulatory capital requirements to, among other things, implement Basel III in the United States. In 2013, the U.S. banking agencies approved final regulations that substantially amend their regulatory capital requirements to, among other things, implement Basel III in the United States, effective January 1, 2014, with mandatory compliance deferred until January 1, 2015 for banks that are not advanced approach banks.

In 2010, the FCA published an Advance Notice of Proposed Rulemaking (ANPR) in the Federal Register, requesting comments as to whether the FCA should replace the existing regulatory capital requirements with a capital tier framework similar to the capital tiers and related requirements set forth in the Basel Accord (Basel I) that other federal financial regulatory agencies have adopted. In the capital ANPR, the FCA stated that it was important for the agency to consider the Basel III framework because the other federal financial regulatory agencies were members of the Basel Committee and had encouraged the public to review and comment on the Basel III proposal. The FCA asked commenters on the ANPR to review and consider the Basel III proposal. In 2013, the FCA announced its intent to revise sections of its capital regulations so they are consistent with Basel III, which could ultimately lead to significant changes in the System's regulatory capital rules. We anticipate these rules will be published in 2014.

## **Relationship with the Federal Agricultural Mortgage Corporation**

Farmer Mac is a federally chartered corporation that was established to create a secondary market for agricultural mortgages and other loans. Since its formation, Farmer Mac's business model has evolved such that it now retains on its balance sheet agricultural mortgages, rural electric loans and other loans similar to System entities. Although Farmer Mac is statutorily defined as an institution of the Farm Credit System and is examined and regulated by the FCA, it is financially and operationally separate and distinct from the System, and any reference to "the System" herein does not include Farmer Mac. Neither CoBank nor any other System entity is liable for any debt or obligation of Farmer Mac. Further, the assets of the Insurance Fund do not support any debt or obligation of Farmer Mac nor do the System's independent credit ratings apply to Farmer Mac, which has not been rated by any NRSRO. Except for contractual obligations arising from business transactions between Farmer Mac and certain System institutions, Farmer Mac is not liable for any debt or obligation of any System entity, including Systemwide Debt Securities, either directly or on a joint and several basis.

We believe that if Farmer Mac, as an institution of the Farm Credit System, were to experience financial difficulty, it could create financial, reputational, political and regulatory risk to the System.

## **Our Ability to Attract and Retain Qualified Board Members, Senior Officers and Associates is Critical to Successfully Fulfilling Our Mission**

The success of CoBank is dependent on the talents and efforts of our Board members, senior officers and associates, and the competition for individuals who possess the requisite knowledge of the banking, agricultural and other relevant industries is intense. The failure to attract and retain qualified Board members, senior officers and associates could adversely affect our business performance, competitive position and the ability to fulfill our mission.

## Liquidity and Capital Resources

### Funding

We use our capital in addition to short-term and long-term debt to fund our assets. Our debt consists primarily of Systemwide Debt Securities issued on CoBank's behalf by the Funding Corporation. Refer to Notes 6 and 7 to the accompanying consolidated financial statements for additional information regarding our debt obligations.

As a member of the System, CoBank has traditionally maintained ready access to debt funding. As of December 31, 2013, Systemwide Debt Securities were rated AAA by Moody's and Fitch, and AA+ by S&P.

### Investment Securities and Cash

Investment securities and cash are primarily held for the purposes of maintaining a liquidity reserve and managing short-term surplus funds. In accordance with Board-approved policies, we purchase high credit quality investment securities to ensure that the investment portfolio is readily marketable and available to serve as a source of liquidity in the event of disruption to our normal funding sources.

Investment securities totaled \$21.7 billion at December 31, 2013, an increase from \$18.0 billion at December 31, 2012 primarily due to better market opportunities to purchase investment securities that meet our risk/return profile. Our cash balance was \$1.3 billion at both December 31, 2013 and 2012.

As a result of our merger with AgBank, on January 1, 2012 we acquired investment securities totaling \$4.8 billion (fair value), which consisted of U.S. Treasury and agency debt securities of \$643.9 million, U.S. agency MBS of \$3.2 billion, Farmer Mac MBS of \$252.9 million, FHA/VA non-wrapped reperformer MBS of \$554.1 million, non-agency MBS of \$132.7 million and ABS of \$58.5 million. The \$3.2 billion of acquired U.S. agency MBS included \$296.7 million of certain FHA/VA reperformer MBS where the underlying loans are approximately 90 percent government guaranteed or insured, and which are further supported by guarantees from either Fannie Mae or Freddie Mac. The \$554.1 million of FHA/VA non-wrapped reperformer MBS described above are MBS where the underlying loans are also approximately 90 percent government guaranteed or insured but which have no guarantees from Fannie Mae or Freddie Mac. These securities carry unique credit risks, as previously discussed on page 40.

As part of business combination accounting, the fair value of all acquired investment securities became the carrying value as of the merger date. We do not expect to collect the full contractual amounts due on certain FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS acquired in the merger. For these investment securities, differences between the contractual amounts due and merger date fair value are classified into two categories: amounts expected to be collected ("accretable amounts") and amounts not expected to be collected ("non-accretable amounts"). Accretable amounts, which totaled \$261.1 million for all acquired investment securities as of the merger date, will be recognized in income

over the remaining life of the investment securities. Non-accretable amounts totaled \$102.5 million as of the merger date, and related to \$739.7 million (fair value) of the acquired investment securities.

The following table summarizes our investment securities and related unrealized gains/losses by asset class.

Investment Securities (\$ in Millions)			
	Amortized	Fair	Unrealized
December 31, 2013	Cost	Value	Gains (Losses)
U.S. Treasury and Agency Debt	\$ 9,959	\$ 9,963	\$ 4
Mortgage-Backed:			
U.S. Agency	10,655	10,618	(37)
Farmer Mac	182	179	(3)
FHA/VA Non-Wrapped			
Reperformer	443	440	(3)
Non-Agency	201	221	20
Asset-Backed	127	152	25
Corporate Bonds	116	115	(1)
Total	\$ 21,683	\$ 21,688	\$ 5
December 31, 2012			
U.S. Treasury and Agency Debt	\$ 6,380	\$ 6,491	\$ 111
Mortgage-Backed:			
U.S. Agency	10,237	10,353	116
Farmer Mac	217	215	(2)
FHA/VA Non-Wrapped			
Reperformer	507	506	(1)
Non-Agency	271	292	21
Asset-Backed	97	121	24
Corporate Bonds	21	21	-
Total	\$ 17,730	\$ 17,999	\$ 269

At each reporting period, we perform impairment assessments of our investment securities based on evaluations of both current and future market and credit conditions and expected cash flows of these securities. Subsequent changes in market and credit conditions or expected cash flows could change these evaluations.

As all of our investment securities are classified as "available for sale", we recognize changes in the fair value of our investment securities in accumulated other comprehensive income (loss), a component of shareholders' equity, unless losses are credit-related and considered other-than-temporary, in which case that portion of the loss is recorded in earnings. We recorded unrealized losses on our investment securities of \$261.2 million in 2013 compared to unrealized gains of \$65.7 million in 2012, respectively. The unrealized losses in 2013 primarily related to the impact of changes in market interest rates on the valuations of fixed-rate securities, while the gains in 2012 primarily related to improved valuations for certain non-agency MBS and ABS.

The most significant credit risk in our investment portfolio relates to our FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default), non-agency MBS and ABS. These securities collectively total

\$813.0 million (fair value) or 4 percent of our total investment securities as of December 31, 2013. Credit risks associated with the portfolio of FHA/VA non-wrapped reperformer MBS and certain other investment securities are discussed on page 40. Credit risk in our investment portfolio also arises from the inability of guarantors and third-party providers of other credit enhancements to meet their contractual obligations to us.

We recorded impairment losses in earnings of \$2.5 million in 2013 and \$17.0 million in 2012. The 2013 impairment losses related to one FHA/VA non-wrapped reperformer MBS and three non-agency MBS. The 2012 impairment losses related to five non-agency MBS and five ABS and included the impact of changes to assumptions in our loss models to better reflect current cash flow expectations. The FHA/VA non-wrapped reperformer MBS and one of the non-agency MBS impaired in 2013 were among those identified as credit-impaired investment securities acquired as part of the AgBank merger. Five of the investment securities impaired in 2012 (four MBS and one ABS) were among those identified as credit-impaired investment securities acquired as part of the AgBank merger. For additional discussion concerning these investment securities, refer to Note 3 to the accompanying consolidated financial statements. Increasing levels of defaults and foreclosures on residential mortgages, high unemployment, a decline in home prices or weak economic conditions may result in further downward adjustments to the fair value of certain investment securities and the need to record future impairment losses.

## Derivatives

As described previously, we use derivatives in part to manage our liquidity position. Derivatives are recorded at fair value as assets or liabilities in the accompanying consolidated balance sheets. Changes in the fair value of these derivatives are accounted for as gains or losses through current period earnings or as a component of accumulated other comprehensive income (loss), depending on the use of the derivatives and whether they qualify for hedge accounting treatment. Net changes in the fair value of derivatives and hedged items recorded in the accompanying consolidated statements of income totaled gains of \$12.0 million and \$17.2 million for 2013 and 2012, respectively. Changes in the fair value of derivatives recorded as other comprehensive income (loss) totaled gains of \$9.2 million in 2013 and losses of \$5.5 million in 2012.

## Capital

We believe that a sound capital position is critical to our long-term financial success and future growth. We are primarily capitalized by common and preferred stock and by retained earnings. Our shareholders' equity totaled \$6.7 billion and \$6.4 billion at December 31, 2013 and 2012, respectively. The \$263.5 million increase was primarily due to our 2013 earnings of \$856.5 million, partially offset by \$338.0 million in cash patronage, a \$183.0 million decrease in accumulated other comprehensive income (loss), and \$63.0 million in preferred stock dividends. The decline in accumulated other

comprehensive income (loss) primarily resulted from changes in the fair values of fixed-rate investment securities driven by changes in market interest rates.

Our shareholders have approved measures allowing CoBank to issue up to \$1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access outside capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance. As of December 31, 2013, we had \$961.8 million of preferred stock outstanding.

On January 1, 2012, as part of the AgBank merger, each share of outstanding common stock of AgBank (Class A Common Stock, \$5 par value, 177,162,554 shares outstanding; Class B Common Stock, \$5 par value, 200 shares outstanding; Class C Common Stock, \$5 par value, 200 shares outstanding) was exchanged for one-twentieth of a share of common stock of CoBank (\$100 par value, 8,858,148 shares outstanding). In addition, AgBank's \$225 million of preferred stock (\$1,000 par value, 225,000 shares outstanding) was exchanged for \$225 million of a new series (Series E) of CoBank non-cumulative perpetual preferred stock (\$1,000 par value, 225,000 shares outstanding) with substantially the same terms and conditions.

On October 1, 2012, we redeemed all of our outstanding Series A and Series B cumulative perpetual preferred stock totaling \$363.3 million. We used cash on hand to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. On October 4, 2012, we issued \$400 million of Series F non-cumulative perpetual preferred stock. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, our Series F preferred stock is included in permanent capital, total surplus and core surplus, whereas our Series A and Series B preferred stock were only included in permanent capital and total surplus. Further, our Series A preferred stock was not fully includable in our permanent capital and total surplus due to its dividend step-up feature. Dividends on Series F preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly at a fixed annual rate equal to 6.25 percent from the date of issuance up to, but excluding, October 1, 2022. Thereafter, dividends will accrue at an annual rate equal to 3-month USD LIBOR plus 4.557 percent.

On April 19, 2013, we issued \$200 million of Series G non-cumulative perpetual preferred stock, representing two million shares at \$100 per share par value. The dividend rate for our Series G preferred stock is 6.125 percent and is fixed for life. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. For regulatory capital purposes, our Series G preferred stock is included in permanent capital, total surplus and core surplus. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly. The Series G preferred stock ranks equally, both as to dividends and upon



liquidation, to our outstanding Series D, E and F preferred stock, and senior to all of our outstanding common stock.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling \$200 million. We used cash on hand to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

For regulatory capital purposes, subject to certain limitations, subordinated debt is included in permanent capital and total surplus and excluded from liabilities in the net collateral ratio. We had \$904.7 million of subordinated debt outstanding at December 31, 2013 and 2012, respectively. In December 2012, we purchased \$95.3 million of our 7.875 percent fixed rate Series 2008A subordinated notes through a cash tender offer. As a result, we incurred a loss of \$28.5 million, which is recorded as a component of noninterest income in the consolidated statement of income for the year ended December 31, 2012. Our subordinated debt is discussed in Note 7 to the accompanying consolidated financial statements.

We may from time to time seek to retire our outstanding debt or equity securities through calls, cash purchases and/or exchanges, in open market purchases, privately negotiated transactions or otherwise. Such repurchases or exchanges, if any, will depend on prevailing market conditions, the Bank's capital position and liquidity requirements, contractual restrictions and other factors.

FCA regulations include requirements to maintain regulatory capital at or above minimum levels for our permanent capital ratio, total surplus ratio, core surplus ratio, and net collateral ratio. The calculation of these ratios is summarized in Note 8 to the accompanying consolidated financial statements. If these standards are not met, the FCA could impose restrictions, including limiting our ability to pay patronage distributions, retire equities and pay preferred stock dividends. As displayed in the following table, at December 31, 2013, 2012 and 2011, we exceeded the minimum regulatory requirements, which are noted parenthetically. The fair value adjustments recorded as a result of the merger with AgBank had an initial unfavorable effect on our regulatory capital ratios. This effect will diminish over time as the acquired assets and liabilities are repaid and the fair value adjustments accrete into income. The pro forma column in the following table reflects our capital ratios excluding the effects of the fair value adjustments resulting from the merger. Effective January 1, 2013, the FCA granted us permission to exclude the impact of merger-related fair value adjustments when determining our net collateral ratio.

## Selected Capital Information (\$ in Millions)

December 31,	2013	2012	Pro Forma	
			2012 <sup>(1)</sup>	2011
Total Shareholders' Equity	\$ 6,705	\$ 6,441	n/a	\$ 4,896
Total Shareholders' Equity/Total Assets	6.87 %	6.97 %	n/a	7.74 %
Permanent Capital Ratio (7.0%)	16.72	16.14	16.83 %	16.37
Total Surplus Ratio (7.0%)	15.74	15.22	15.91	16.01
Core Surplus Ratio (3.5%)	10.82	10.06	10.74	10.02
Net Collateral Ratio (104.0%) <sup>(2)(3)</sup>	107.57	107.08	107.67	109.05

<sup>(1)</sup> The pro forma column reflects regulatory capital ratios excluding the effects of the fair value adjustments resulting from the merger with AgBank effective January 1, 2012.

<sup>(2)</sup> The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have Series A preferred stock or subordinated debt outstanding. Our Series A preferred stock was fully redeemed on October 1, 2012.

<sup>(3)</sup> As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2014 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. As of December 31, 2013, our core surplus ratio excluding common stock was 9.06 percent. As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level.

In accordance with the Farm Credit Act, cooperatives and other eligible borrowers are required to purchase equity in CoBank as a condition of borrowing. Eligible borrowers that borrow on a patronage basis have voting rights while they are active borrowers. Generally, for borrowers other than affiliated Associations, the minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received by CoBank in cash at the time the borrower receives the loan proceeds. Affiliated Associations provide an initial and ongoing voting stock investment of 4 percent of their average outstanding loan balance. Collectively, the customer-owners that hold voting stock elect our Board of Directors. We operate on a

cooperative basis and return a significant portion of our earnings to our customer-owners in the form of patronage distributions.

In conjunction with the annual business and financial planning process, the Board of Directors reviews and approves a capital adequacy plan which includes target levels for capital and capital ratio baselines. When reviewing the capital adequacy plan and setting an appropriate target equity level, the Board considers the following: the Bank's overall risk profile; capital composition; loan volume projections; anticipated future capital needs; and the Bank's capital levels in comparison to commercial banks and regulatory minimum capital standards. As of December 31, 2013, the Board-established capital ratio baselines were 11 percent for the permanent capital and total surplus ratios, 7 percent for the core surplus ratio, and 6 percent for the core surplus ratio excluding common stock. The Board also balances the amount required to properly capitalize the Bank with the desire to distribute a level of patronage that provides appropriate returns to our customer-owners. The Board may increase or decrease these patronage levels (provided we remain within the regulatory capital minimums) based on its ongoing evaluation of the Bank's business. As a result, there is no assurance that patronage will remain at current levels.

As part of our business planning process, we perform stress tests to examine the Bank's financial condition and performance under a variety of market and economic environments, including unanticipated loan growth and prolonged periods of financial and loan quality stress. These tests, which include severe scenarios, illustrate the Bank's ability to continue to maintain compliance with regulatory requirements while continuing to fulfill our mission. Results of these tests are reviewed with the Board of Directors.

## Capital Plans

We have four capital plans that govern the level of capital investment required by customer-owners. These include a plan for cooperative customers, a plan for affiliated Associations, a plan for nonaffiliated entities and a plan for loan participations purchased from System entities.

The targeted equity level for the cooperative capital plan is 8 percent of the 10-year historical average loan volume. Additionally, when a borrower's loans are paid in full, stock is retired over a 10-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the cooperative capital plan is 100 basis points of the current year average loan volume. For the 2013 patronage, the cash portion of patronage will be 75 percent for all cooperative capital plan members, as it was for 2012. For 2011 patronage, the cash portion was 65 percent. The remaining portion is paid in common stock.

The capital plan for loan participations purchased from System entities is similar to the cooperative capital plan described above.

The targeted equity level for the affiliated Association capital plan is 4 percent of the one-year historical average loan volume. There is no stock retirement feature for this capital plan. The targeted patronage rate for the affiliated Association

capital plan is 45 basis points of the current year average loan volume, with all patronage being paid in cash.

The targeted equity level for the nonaffiliated entities capital plan is 4 percent of the five-year historical average loan volume. Additionally, when these borrowers' loans are paid in full, stock is retired over a five-year loan base period beginning in the year following loan payoff, subject to Board approval and compliance with minimum regulatory capital requirements. The targeted patronage rate for the nonaffiliated entity capital plan is 45 basis points of the current year average loan volume. The cash portion of patronage is 20 percent for all nonaffiliated entity capital plan members, with the remaining portion paid in common stock.

All patronage payments and retirements of equity require the prior approval of our Board of Directors, which may increase or decrease such payments based upon the Bank's current or projected business performance and capital levels. In addition, patronage payments can only be made if the Bank is in compliance with minimum regulatory capital requirements and preferred stock dividends for the immediately preceding period have been paid in full.

Patronage distributions are made in the form of cash and common stock, as shown in the following table. Eligible shareholders will receive patronage distributions from CoBank for 2013 in the first quarter of 2014. Patronage distributions for 2013 were slightly lower than 2012 primarily as a result of a shift in the mix of average loan volume, including lower levels of patronage-based loans in our Agribusiness operating segment and increased lending to Associations in our Strategic Relationships operating segment.

Patronage Distributions (\$ in Thousands)				
Year Ended December 31,	2013	2012	2011	
Common Stock	\$ 76,527	\$ 80,472	\$ 109,900	
Cash	338,001	344,516	230,751	
Total Patronage Distributions	\$ 414,528	\$ 424,988	\$ 340,651	
Patronage Distributions/ Total Average Common Stock				
Owned by Active Borrowers	17.53 %	18.41 %	22.65 %	

## Economic Capital

Economic capital is a measure of risk and is defined as the amount of capital required to absorb potential losses resulting from extremely severe events over a one-year time period. "Unexpected losses" are the difference between potential extremely severe losses and the expected (average) loss over a one-year time period. The amount of economic capital required is based on our risk profile and a targeted solvency standard. We attribute economic capital to quantifiable risks including credit risk, interest rate / market risk, and operational risk. These risks are measured and aggregated to estimate the exposure to potential extremely severe events and any impact to our capital.

The economic capital model considers the economic capital requirements of our affiliated Associations through the evaluation of the Associations' retail credit risk, operational risk and interest rate/market risk. An economic capital shortfall (which is the difference between available capital and

required economic capital) at any affiliated Association is included in our economic capital requirements.

For economic capital modeling purposes, we have targeted a “AA” solvency standard, which equates to a 99.97 percent confidence level. In other words, the likelihood of incurring losses greater than the required economic capital amount is estimated to be similar to the likelihood of a AA-rated bond defaulting, which is a 0.03 percent probability. At December 31, 2013, the Bank held capital in excess of the amount calculated by its economic capital model.

## Critical Accounting Estimates

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Management’s discussion and analysis of the financial condition and results of operations are based on the Bank’s consolidated financial statements, which we prepare in accordance with accounting principles generally accepted in the United States of America. In preparing these financial statements, we make estimates and assumptions. Our financial position and results of operations are affected by these estimates and assumptions, which are integral to understanding reported results.

Note 1 to the accompanying consolidated financial statements contains a summary of our significant accounting policies. We consider certain of these policies to be critical to the presentation of our financial condition, as they require us to make complex or subjective judgments that affect the value of certain assets and liabilities. Some of these estimates relate to matters that are inherently uncertain. Most accounting policies are not, however, considered critical. Our critical accounting policies relate to determining the level of our allowance for credit losses, the valuation of financial instruments with no ready markets (primarily derivatives and certain investment securities) and accounting for the merger with AgBank. Management has reviewed these critical accounting policies with the Audit Committee of the Board of Directors.

Certain of the statements below contain forward-looking statements, which are more fully discussed on pages 57 and 58.

### Allowance for Credit Losses

Our allowance for loan losses reflects an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We provide line of credit financing to customers to cover short-term and variable needs, the usage of which, particularly for farm supply and grain marketing customers, is influenced by volatility in agricultural commodity prices and supplies. As a result, we have significant unfunded commitments for which we maintain a separate reserve. This reserve is reported as a liability on the Bank’s consolidated balance sheet. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the “allowance for credit losses.”

Our allowance for credit losses reflects our assessment of the risk of probable and estimable loss related to outstanding balances and unfunded commitments in our loan and finance

lease portfolio. The allowance for credit losses is maintained at a level consistent with this assessment, considering such factors as loss experience, portfolio quality, portfolio concentrations, current and historical production conditions, modeling imprecision, our mission, and economic and environmental factors specific to our business segments.

The allowance for credit losses is based on our regular evaluation of our loan and finance lease portfolio. We establish the allowance for credit losses via a process that begins with estimates of probable loss within the portfolio. Our methodology consists of analysis of specific individual credits and evaluation of the remaining portfolio. We evaluate significant individual credit exposures, including adversely classified loans, based upon the borrower’s overall financial condition, resources, payment record and projected viability. We also evaluate the prospects for support from any financially viable guarantors and the estimated net realizable value of any collateral. Senior-level committees approve specific credit and reserve-related activities. The Audit and Risk Committees of the Board of Directors review and approve the allowance for credit losses on a quarterly basis, including year-end. In addition, the Board of Directors approves the year-end allowance for credit losses.

Our determination of the allowance for credit losses is sensitive to the assigned risk ratings and probabilities of default, as well as assumptions surrounding loss given default. Changes in these components underlying this critical accounting estimate could increase or decrease our provision for loan losses. Such a change would increase or decrease net income and the related allowance for loan losses and reserve for unfunded commitments, which could have a material effect on the Bank’s financial position and results of operations.

To analyze the impact of assumptions on our provision expense and the related allowance for credit losses, we changed a critical assumption to reflect the impact of deterioration or improvement in loan quality. In the event that 10 percent of loans (calculated on a pro-rata basis across all risk ratings), excluding loans to Associations and guaranteed loans, experienced downgrades or upgrades of one risk rating category, the provision for loan losses and related allowance for credit losses would have increased or decreased by \$8.1 million at December 31, 2013.

### Valuation of Financial Instruments with No Ready Markets and Other-Than-Temporary Impairment Analyses

We use fair value measurements to record fair value adjustments to certain financial instruments and to determine fair value disclosures. All of our investment securities and derivative instruments are reported at their estimated fair value on the accompanying consolidated balance sheets. We also estimate the amount of other-than-temporary impairment for certain investment securities.

As discussed in Note 13 to the accompanying consolidated financial statements, we maximize the use of observable inputs when measuring fair value. Observable inputs reflect market-derived or market-based information obtained from independent sources, while unobservable inputs primarily reflect our estimates about market data.



The fair value of 97 percent of our investment securities is determined by a third-party pricing service that uses valuation models to estimate current market prices. For the remainder of our investment securities, market value is calculated internally using third-party models. Inputs and assumptions related to all of these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying mortgage- or asset-backed collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves, volatilities, counterparty credit quality, and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results. The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

Credit risk in our portfolio of investment securities is primarily limited to the 4 percent of securities that do not carry an explicit or implied government guarantee. In instances where the fair value of investment securities is less than the carrying value, we estimate the component of unrealized losses attributable to credit losses. The third-party model we use to estimate these losses requires assumptions related to collateral, including prepayments, defaults and loss severity.

All models used for these financial statement estimates or for independent risk monitoring purposes are periodically reviewed and validated in accordance with our policies.

The degree of management judgment involved in determining the fair value and impairment of a financial instrument is dependent upon the availability of observable market inputs. For financial instruments that trade actively and have observable market prices and inputs, there is minimal subjectivity involved. When observable market prices and inputs are not fully available, management judgment is necessary to estimate fair value and impairment. Changes in market conditions may reduce the availability of market prices or observable data. For example, reduced liquidity in the capital markets or changes in secondary market activities could result in observable market inputs becoming unavailable. When market data is not available, we use valuation techniques requiring more management judgment to estimate the appropriate fair value measurement and level of impairment, if any. Changes in assumptions could affect these estimates.

At December 31, 2013, approximately 23 percent of total assets, or \$22.4 billion, consisted of financial instruments recorded at fair value. Approximately 97 percent of these financial instruments used valuation methodologies involving market-based or market-derived information to measure fair value. The remaining 3 percent of these financial instruments was measured using model-based techniques, consisting of our Farmer Mac MBS, FHA/VA non-wrapped repurchase MBS, and a small portion of agency MBS. At December 31, 2013, approximately 1 percent of total liabilities, or \$556.0 million, consisted of financial instruments recorded at fair value, the substantial majority of which are valued using methodologies involving market-based or market-derived information. The fair value of investment securities with other-than-temporary impairment losses was \$217.9 million at December 31, 2013.

### **Merger Accounting**

In relation to our merger with AgBank, we applied business combination accounting standards, which require the use of significant estimates and assumptions to record the assets acquired and liabilities assumed at their acquisition-date fair values. In some instances, assumptions with respect to the timing and amount of future revenues and expenses associated with assets and liabilities are used in determining its fair value. Actual timing and amount of net cash flows from revenues and expenses related to assets and liabilities over time may differ materially from those initial estimates, and if the timing is delayed significantly or if the net cash flows decline significantly, assets could become impaired. Our estimates were based upon assumptions we believed to be reasonable, but which are inherently uncertain and unpredictable. Our merger is discussed further in Note 3 to the accompanying consolidated financial statements.

### **Recent Accounting Pronouncements**

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In February 2013, the Financial Accounting Standards Board issued guidance requiring an entity to measure obligations resulting from joint and several liability arrangements as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. For public entities, the new guidance is effective for fiscal years beginning after December 15, 2013 (and interim reporting periods within those years). For nonpublic entities, the guidance is effective for the first annual period ending on or after December 15, 2014, and interim and annual periods thereafter.

As described in Note 6 to the consolidated financial statements, all Systemwide Debt Securities are the joint and several liabilities of the System banks. CoBank will adopt the new standard in 2014 and will account for its joint and several liabilities for all Systemwide Debt Securities as a contingent liability. We will not record a liability unless it is probable that we will be required to pay an amount and that amount can be reasonably estimated. Given the current financial condition of System banks, the adoption of this new guidance is not expected to have an effect on our consolidated financial position, results of operations or cash flows.

## Business Outlook

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Despite recent improvements in the general economy, we face market conditions that could make the lending and earnings environment less favorable for CoBank. Long-term interest rates remain low by historical standards, and continue to negatively impact the returns on invested capital, our balance sheet positioning and investment securities. The timing and impact of Federal Reserve actions relative to tapering its quantitative easing policy creates further economic uncertainty. Greater liquidity in debt funding markets and a renewed focus by banks on commercial lending has intensified competition across many of the industries we serve. Agricultural commodity prices and supplies remain subject to volatility and weather will continue to have a potentially significant impact on commodity price levels, crop planting and yields. Customers in many of the industries we serve are impacted by unpredictable agricultural commodity prices and yields and ongoing political and regulatory uncertainty. Overall demand for electricity remains modest while rapidly changing technology creates uncertainty in the communications industry. These challenges could reduce the credit quality and influence the level of loan demand in certain sectors of our loan portfolio. Changes in home prices could also lead to changes in the valuation of certain of our investment securities. In addition, political gridlock surrounding the level of U.S. government spending and debt could disrupt funding markets or increase our borrowing costs.

The 2012 merger with AgBank continues to create opportunities to increase market share in the geographic regions covered by the Associations formerly affiliated with AgBank, and has significantly enhanced the geographic and industry diversification of our loan portfolio. It has also provided us with the opportunity to further strengthen business operations, enhance market opportunities for CoBank's products and services, and realize operating and process efficiencies.

We are focused on maintaining our financial strength, enhancing our enterprise risk management capabilities and improving the efficiency of our operations. We believe that our strong capital, liquidity and earnings will continue to provide the capacity to serve customers in volatile market conditions and to effectively lower the net cost of borrowing for our customers through consistent and reliable patronage payments. We will continue our disciplined approach to managing risk and will closely monitor asset quality. We will also continue to enhance our financial performance through

strong expense discipline. Nevertheless, we will seek opportunities to invest in people, processes, systems and activities that enhance our value proposition and allow us to better fulfill our mission in rural America.

Under the guidance of our Board of Directors and through the focus of a proven executive management team, our continued success will be achieved by creating mutually beneficial partnerships with other System institutions, increasing market share, maintaining effective access to the agency debt capital markets, optimizing current lending authorities and pursuing various strategic alliances with other financial services organizations.

## Forward Looking Statements

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Certain of the statements contained in this annual report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from those included in the forward-looking statements that relate to our plans, projections, expectations and intentions. Forward-looking statements are typically identified by words such as "believe," "expect," "anticipate," "intend," "estimate," "plan," "project," "may," "will," "should," "would," "could" or similar expressions. Although we believe that the information expressed or implied in such forward-looking statements is reasonable, we can give no assurance that such projections and expectations will be realized or the extent to which a particular plan, projection or expectation may be realized. These forward-looking statements are based on current knowledge and are subject to various risks and uncertainties, including, but not limited to:

- Changes that negatively impact the agricultural, energy, communications, water and leasing industries;
- The level of interest rates and relationships between various interest rate indices;
- Adverse food safety and weather events, disease, and other unfavorable conditions that periodically occur and impact agricultural productivity and income;
- Credit performance of the loan portfolio;
- Loan portfolio growth and seasonal factors;
- Weak U.S. economic conditions;
- Weaknesses in other developed and emerging economies;
- Government policies and political developments in the United States and other countries in which we make loans;
- Legislative actions and the effect of banking and financial services reforms;
- Regulatory actions, including possible amendments to, and interpretations of, risk-based capital guidelines;
- Changes in the U.S. government's support of the agriculture industry and agricultural exports;
- Changes in levels of global crop production, exports, usage, and inventories;

- Actions taken by the U.S. Congress relative to Government Sponsored Enterprises (GSEs), including the Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac), and the Federal Agricultural Mortgage Corporation (Farmer Mac);
- Actions taken by the U.S. government to manage U.S. fiscal policy, including tax reform;
- Actions taken by the Federal Reserve to manage the monetary policy of the United States;
- A decrease in the credit outlook or ratings of U.S. government debt and agency debt, including Systemwide debt securities;
- Cybersecurity risks that could adversely affect our business, financial performance, and reputation;
- Changes in assumptions underlying the valuations of financial instruments;
- Changes in the bases for our estimates underlying the allowance for credit losses;
- Failure of our investment portfolio to perform as expected or deterioration in the credit quality of such investments;
- The resolution of legal proceedings and related matters;
- Environmental-related conditions or laws impacting our lending activities;
- Nonperformance by counterparties under our derivative contracts; and
- Our ability to successfully execute and integrate any future business combinations or strategic alliances.

We expressly disclaim any obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.



# Consolidated Statements of Income

## CoBank, ACB

(\$ in Thousands)

Year Ended December 31,	2013	2012	2011
<b>Interest Income</b>			
Loans	\$ 1,651,245	\$ 1,703,877	\$ 1,518,073
Investment Securities	311,943	321,730	271,074
Total Interest Income	1,963,188	2,025,607	1,789,147
<b>Interest Expense</b>	799,755	787,437	718,120
Net Interest Income	1,163,433	1,238,170	1,071,027
Provision for Loan Losses	-	70,000	58,000
Net Interest Income After Provision for Loan Losses	1,163,433	1,168,170	1,013,027
<b>Noninterest Income/Expense</b>			
Net Fee Income	118,737	116,801	117,741
Prepayment Income	78,217	49,379	24,691
Losses on Early Extinguishment of Debt	(96,839)	(86,718)	(50,421)
Loss on Tender Offer for Subordinated Debt	-	(28,460)	-
Total Other-Than-Temporary Impairment Losses	(1,852)	(972)	(8,756)
Portion Recognized in Other Comprehensive Income/Loss	(648)	(16,028)	(1,244)
Net Other-Than-Temporary Impairment Losses Included in Earnings	(2,500)	(17,000)	(10,000)
Other, Net	34,470	79,319	35,925
Total Noninterest Income	132,085	113,321	117,936
<b>Operating Expenses</b>			
Employee Compensation	148,024	145,999	117,531
General and Administrative	21,517	32,228	24,446
Information Technology	27,020	22,227	18,846
Insurance Fund Premium	36,974	18,349	20,245
Travel and Entertainment	16,019	15,767	12,425
Farm Credit System Related	12,817	13,279	8,415
Occupancy and Equipment	8,330	9,012	7,404
Purchased Services	9,393	7,022	18,958
Total Operating Expenses	280,094	263,883	228,270
Income Before Income Taxes	1,015,424	1,017,608	902,693
Provision for Income Taxes	158,969	163,691	196,106
Net Income	\$ 856,455	\$ 853,917	\$ 706,587

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Comprehensive Income

**CoBank, ACB**

(\$ in Thousands)

Year Ended December 31,	2013	2012	2011
Net Income	\$ 856,455	\$ 853,917	\$ 706,587
Other Comprehensive Income (Loss), Net of Tax (Note 2):			
Net Change in Unrealized Losses/Gains on Investment			
Securities Not Other-Than-Temporarily Impaired	(160,740)	6,060	123,863
Net Change in Unrealized Losses/Gains on			
Other-Than-Temporarily Impaired Investment Securities	(50,861)	43,118	(7,034)
Net Change in Unrealized Losses/Gains on Interest Rate			
Swaps and Other Financial Instruments	9,015	(5,301)	(1,460)
Net Pension Adjustment	19,611	(1,135)	(13,495)
Other Comprehensive Income (Loss)	(182,975)	42,742	101,874
Comprehensive Income	\$ 673,480	\$ 896,659	\$ 808,461

*The accompanying notes are an integral part of the consolidated financial statements.*

# Consolidated Balance Sheets

## CoBank, ACB

(\$ in Thousands)

As of December 31,	2013	2012	2011
<b>Assets</b>			
Total Loans	\$ 73,603,375	\$ 71,980,458	\$ 46,285,142
Less: Allowance for Loan Losses	447,126	437,376	388,056
Net Loans	73,156,249	71,543,082	45,897,086
Cash	1,335,024	1,253,509	2,771,842
Investment Securities	21,688,489	17,999,191	12,995,458
Accrued Interest Receivable	369,021	360,839	277,528
Interest Rate Swaps and Other Financial Instruments	674,022	1,005,115	1,048,629
Other Assets	421,587	316,022	299,672
Total Assets	\$ 97,644,392	\$ 92,477,758	\$ 63,290,215
<b>Liabilities</b>			
Bonds and Notes	\$ 88,457,752	\$ 83,607,119	\$ 56,104,486
Subordinated Debt	904,685	904,685	1,000,000
Accrued Interest Payable	290,903	295,776	255,021
Interest Rate Swaps and Other Financial Instruments	121,307	157,880	136,945
Reserve for Unfunded Commitments	167,592	157,703	153,919
Other Liabilities	997,537	913,451	744,311
Total Liabilities	90,939,776	86,036,614	58,394,682
Commitments and Contingent Liabilities (Note 16)			
<b>Shareholders' Equity</b>			
Preferred Stock	961,750	961,750	700,000
Common Stock	2,677,485	2,605,933	1,654,314
Unallocated Retained Earnings	3,103,926	2,729,031	2,439,531
Accumulated Other Comprehensive Income (Loss)	(38,545)	144,430	101,688
Total Shareholders' Equity	6,704,616	6,441,144	4,895,533
Total Liabilities and Shareholders' Equity	\$ 97,644,392	\$ 92,477,758	\$ 63,290,215

The accompanying notes are an integral part of the consolidated financial statements.



# Consolidated Statements of Cash Flows

## CoBank, ACB

(\$ in Thousands)

Year Ended December 31,	2013	2012	2011
<b>Cash Flows Provided by Operating Activities</b>			
Net Income	\$ 856,455	\$ 853,917	\$ 706,587
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:			
Provision for Loan Losses	-	70,000	58,000
Deferred Income Taxes	56,917	(30,639)	101,674
Depreciation and Amortization/Accretion, Net	63,900	(37,123)	10,520
Losses on Impairments of Investments Available-for-Sale	2,500	17,000	10,000
(Increase) Decrease in Accrued Interest Receivable	(8,182)	29,992	108,873
(Increase) Decrease in Other Assets	(87,526)	117,099	20,376
Decrease in Accrued Interest Payable	(4,873)	(40,217)	(96,214)
Increase (Decrease) in Other Liabilities	52,158	(60,253)	17,284
Net Gains on Interest Rate Swaps and Other Financial Instruments	(3,777)	(8,513)	(9,943)
Proceeds from Termination of Interest Rate Swaps	-	-	31,788
Purchase of Interest Rate Caps	(22,375)	(15,120)	-
Other	(2,125)	(12,102)	(6,209)
<b>Net Cash Provided by Operating Activities</b>	<b>903,072</b>	<b>884,041</b>	<b>952,736</b>
<b>Cash Flows (Used in) Provided by Investing Activities</b>			
Net (Increase) Decrease in Loans	(1,696,797)	(5,823,665)	3,688,075
Net Cash Acquired in Business Combination	-	225,859	-
Investment Securities:			
Purchases	(11,899,833)	(12,276,503)	(6,128,705)
Proceeds from Maturities and Prepayments	7,930,676	12,190,661	5,841,874
Proceeds from Sales	-	-	41,345
<b>Net Cash (Used in) Provided by Investing Activities</b>	<b>(5,665,954)</b>	<b>(5,683,648)</b>	<b>3,442,589</b>
<b>Cash Flows Provided by (Used in) Financing Activities</b>			
Bonds and Notes Proceeds	109,082,008	63,645,063	35,881,933
Bonds and Notes Retired	(104,483,913)	(59,857,913)	(40,119,400)
Net Increase (Decrease) in Notes Payable and Other Interest-bearing Liabilities	659,527	(132,556)	974,492
Subordinated Debt Retired	-	(95,315)	-
Preferred Stock Issued, Net	195,555	394,196	-
Preferred Stock Redemptions	(200,000)	(363,250)	-
Preferred Stock Dividends Paid	(65,245)	(71,938)	(63,799)
Common Stock Issued	26,639	27,011	5,324
Common Stock Retired	(31,221)	(34,124)	(29,899)
Cash Patronage Distribution Paid	(338,953)	(229,900)	(194,720)
<b>Net Cash Provided by (Used In) Financing Activities</b>	<b>4,844,397</b>	<b>3,281,274</b>	<b>(3,546,069)</b>
<b>Net Increase (Decrease) in Cash</b>	<b>81,515</b>	<b>(1,518,333)</b>	<b>849,256</b>
<b>Cash at Beginning of Year</b>	<b>1,253,509</b>	<b>2,771,842</b>	<b>1,922,586</b>
<b>Cash at End of Year</b>	<b>\$ 1,335,024</b>	<b>\$ 1,253,509</b>	<b>\$ 2,771,842</b>
<b>Supplemental Noncash Investing and Financing Activities</b>			
Net Change in Accrued Purchases of Securities	\$ (48,595)	\$ -	\$ -
Change in Unrealized Gains/Losses on Investment Securities, Before Taxes	(261,244)	65,689	138,817
Patronage in Common Stock	76,527	80,472	109,900
Issuance of Preferred Stock Related to Merger	-	225,000	-
Issuance of Common Stock Related to Merger	-	878,260	-
<b>Supplemental Noncash Fair Value Changes Related to Hedging Activities</b>			
Decrease (Increase) in Interest Rate Swaps and Other Financial Instrument Assets	\$ 331,093	\$ 43,514	\$ (47,264)
(Decrease) Increase in Bonds and Notes Related to Hedging Activities	(331,676)	(171,359)	(10,878)
(Decrease) Increase in Interest Rate Swaps and Other Financial Instrument Liabilities	(36,573)	20,935	44,365
<b>Supplemental Disclosure of Cash Flow Information</b>			
Interest Paid	\$ 802,315	\$ 743,578	\$ 815,746
Income Taxes Paid	178,429	93,880	95,225

The accompanying notes are an integral part of the consolidated financial statements.

# Consolidated Statements of Changes in Shareholders' Equity

CoBank, ACB

(\$ in Thousands)

	Preferred Stock	Common Stock	Unallocated Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2010	\$ 700,000	\$ 1,568,989	\$ 2,137,394	\$ (186)	\$ 4,406,197
Comprehensive Income			706,587	101,874	808,461
Preferred Stock Dividends			(63,799)		(63,799)
Common Stock:					
Issuances		5,325			5,325
Redemptions		(29,900)			(29,900)
Patronage Distribution:					
Cash			(230,751)		(230,751)
Common Stock		109,900	(109,900)		-
Balance at December 31, 2011	\$ 700,000	\$ 1,654,314	\$ 2,439,531	\$ 101,688	\$ 4,895,533
Comprehensive Income			853,917	42,742	896,659
Preferred Stock:					
Dividends			(72,065)		(72,065)
Issuance in Connection with Merger	225,000				225,000
Other Issuance	400,000		(5,804)		394,196
Redemptions	(363,250)				(363,250)
Common Stock:					
Issuance in Connection with Merger		878,260			878,260
Other Issuances		27,011			27,011
Redemptions		(34,124)			(34,124)
Patronage Distribution:					
Cash			(344,516)		(344,516)
Common Stock		80,472	(80,472)		-
Net Fair Value Adjustments Related to Merger (Note 3)			(61,560)		(61,560)
Balance at December 31, 2012	\$ 961,750	\$ 2,605,933	\$ 2,729,031	\$ 144,430	\$ 6,441,144
Comprehensive Income (Loss)			856,455	(182,975)	673,480
Preferred Stock:					
Dividends			(62,980)		(62,980)
Issuance	200,000		(4,445)		195,555
Redemption	(200,000)				(200,000)
Common Stock:					
Issuances		26,639			26,639
Redemptions		(31,221)			(31,221)
Patronage Distribution:					
Cash			(338,001)		(338,001)
Common Stock		76,527	(76,527)		-
Other		(393)	393		-
Balance at December 31, 2013	\$ 961,750	\$ 2,677,485	\$ 3,103,926	\$ (38,545)	\$ 6,704,616

The accompanying notes are an integral part of the consolidated financial statements.

# Notes to Consolidated Financial Statements

## CoBank, ACB

(\$ in Thousands, Except Per Share Amounts and as Noted)

### Note 1 – Description of Business and Summary of Significant Accounting Policies

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#### Description of Business

CoBank, ACB (CoBank or the Bank) is one of the four banks of the Farm Credit System (System). CoBank provides loans, leases and other financial services to vital industries across rural America. The System is a federally chartered network of borrower-owned lending institutions composed of cooperatives and related service organizations. The System was established in 1916 by the U.S. Congress and is a Government Sponsored Enterprise (GSE). We are federally chartered under the Farm Credit Act of 1971, as amended (the Farm Credit Act), and are subject to supervision, examination and safety and soundness regulation by an independent federal agency, the Farm Credit Administration (FCA).

On January 1, 2012, U.S. AgBank, FCB (AgBank) merged with and into CoBank, FCB, a wholly-owned subsidiary of CoBank. CoBank, FCB was formed in connection with the merger and preserves the statutory tax exemption applicable to Farm Credit Banks. Effective January 1, 2012, CoBank transferred its nontaxable activities to CoBank, FCB and began conducting its Title I lending business (primarily funding of Farm Credit Associations) through CoBank, FCB. Refer to Note 3 for additional information on the merger with AgBank.

We are cooperatively owned by our U.S. customers. Our customers consist of agricultural cooperatives, rural energy, communications and water companies, farmer-owned financial institutions including Agricultural Credit Associations and Federal Land Credit Associations (Associations) and other businesses that serve rural America. We are the primary funding source for certain Associations serving specified geographic regions in the United States (which are regulated financial institutions and members of the System). We collectively refer to these entities as our affiliated Associations.

Our wholly-owned leasing subsidiary, Farm Credit Leasing Services Corporation (FCL), specializes in lease financing and related services for a broad range of equipment, machinery, vehicles and facilities.

In conjunction with other System entities, the Bank jointly owns three service organizations: the Federal Farm Credit Banks Funding Corporation (Funding Corporation), the FCS Building Association and the Farm Credit Association Captive Insurance Corporation. The Funding Corporation issues, markets and processes Federal Farm Credit Banks Consolidated Systemwide bonds, medium term notes and discount notes (collectively referred to as Systemwide Debt Securities) and also provides financial management and reporting services for the combined entities of the System. The FCS Building Association leases premises and equipment to the FCA as required by the Farm Credit Act. The Farm Credit Association Captive Insurance Company is a reciprocal insurer that provides insurance services such as directors and officers liability, fiduciary liability and a bankers bond to System organizations.

We have minority ownership interests in Farm Credit Financial Partners, Inc. and AgVantis, Inc., both of which are chartered under the Farm Credit Act as service organizations providing a range of support and technology services to certain Associations. Our ownership interest in AgVantis was obtained via our January 1, 2012 merger with AgBank. We also have small equity interests in certain other System banks and Associations as required in connection with the purchase and sale of participation loans.

Copies of CoBank's financial reports are available on request by calling or visiting one of our banking center locations and through our website at [www.cobank.com](http://www.cobank.com). Copies of financial reports of our affiliated Associations and the System are available on their respective websites.

#### Summary of Significant Accounting Policies

##### Basis of Presentation and Principles of Consolidation

The consolidated financial statements include the accounts of CoBank, CoBank, FCB and FCL. All significant intercompany accounts and transactions have been eliminated.

The accompanying consolidated financial statements exclude financial information of our affiliated Associations. CoBank and our affiliated Associations are collectively referred to as the "District." The supplemental information on pages 103 to 114 includes certain unaudited combined financial information of our affiliated Associations and the District.



We prepare our financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) and prevailing practices within the financial services industry. These principles require us to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates. Significant estimates are discussed in these notes to the consolidated financial statements, as applicable. Certain reclassifications have been made to amounts reported in previous years to conform to the 2013 presentation.

#### Loans

We report loans, excluding leases, at their principal amount outstanding and accrue interest income based upon the daily principal amount outstanding. For loans purchased at a discount, we amortize unearned income using the straight-line method, which approximates the interest method. We defer loan origination fees and costs, and amortize them over the life of the related loan as an adjustment to yield.

The accounting for loans obtained in the merger with AgBank is described in Note 3.

Except as otherwise noted, leases are included with loans in the consolidated financial statements and related notes. We record leases as either direct financing or operating leases. Under direct financing leases, unearned finance income from lease contracts represents the excess of gross lease receivables over the cost of leased equipment, net of estimated residual values. Residual values, which are reviewed at least annually, represent the estimated amount to be received at lease termination from the disposition of leased assets. We amortize net unearned finance income to interest income using the interest method. Under operating leases, property is recorded at cost and depreciated on a straight-line basis over the lease term to an estimated residual or salvage value. We recognize revenue as earned ratably over the term of the operating lease.

In the normal course of business, we manage lending credit exposures by selling or syndicating loans to System entities and other financial institutions. Such transactions include the transfer of participating interests, as defined pursuant to GAAP. We account for these transactions as sales and, accordingly, the assets transferred are not recognized in our consolidated balance sheets.

#### Impaired Loans

Impaired loans are loans for which it is probable that not all principal and interest will be collected according to the contractual terms of the loans. Impaired loans include loans that are in nonaccrual status, restructured, or past due 90 days or more and still accruing interest.

We do not accrue interest income on impaired loans unless they are adequately secured and in the process of collection. When interest accruals are suspended, accrued and unpaid interest income is reversed with current year accruals charged to earnings and prior year amounts charged off against the allowance for loan losses.

For nonaccrual loans, we primarily apply cash receipts against the outstanding principal balance. If collectability of the loan balance is fully expected and certain other criteria are met, we recognize interest payments as interest income. We may return such loans to accrual status when the borrower is current, has demonstrated payment performance, collection of future payments is fully expected and there are no unrecovered charge-offs.

Accruing restructured loans are those for which the contractual terms and conditions have been amended or otherwise revised to incorporate certain monetary concessions because the borrower is experiencing financial difficulty. We place the loan in nonaccrual status if the borrower's ability to meet the revised contractual terms is uncertain.

We establish an impairment reserve if the fair value of assets held for operating leases decreases to below book value and such difference is not recoverable.

#### Allowance for Loan Losses and Reserve for Unfunded Commitments

Our allowance for loan losses reflects an adjustment to the value of our total loan and finance lease portfolio for inherent credit losses related to outstanding balances. We also maintain a separate reserve for unfunded commitments which is reported as a liability on the Bank's consolidated balance sheet. The reserve for unfunded commitments represents an additional reserve for binding commitments to extend credit and for commercial letters of credit. We had \$27.1 billion and \$476.6 million of commitments to extend credit and commercial letters of credit, respectively, at December 31, 2013. The amount of our allowance for loan losses and reserve for unfunded commitments can fluctuate based on the seasonal nature of borrowings in the agriculture industry, which is impacted by various factors including volatility in commodity prices. We refer to the combined amounts of the allowance for loan losses and the reserve for unfunded commitments as the "allowance for credit losses." At December 31, 2013, our allowance for credit losses totaled \$614.7 million, of which \$447.1 million related to the allowance for loan losses and \$167.6 million related to the reserve for unfunded commitments.

The allowance for credit losses is maintained at a level we consider sufficient to absorb losses inherent in the loan and finance lease portfolio and in unfunded commitments. We base the allowance for credit losses on our regular evaluation of these portfolios.

To determine our allowance for credit losses, we divide our loans and finance leases into two broad categories: those that are impaired and those that are not. A loan or finance lease is impaired when, based on current information and events, it is probable that we will not collect all amounts due under the contractual terms. Impairment of loans and finance leases is measured based on the fair value of the collateral, if the loan or finance lease is collateral dependent, or the present value of expected future cash flows discounted at the effective interest rate of the contract. In limited cases, we base the impairment on observable market prices. Changes in the financial condition of our borrowers and in the general economy will cause these estimates, appraisals and evaluations to change.

For loans and finance leases that are not individually assessed for impairment, we establish an allowance for credit losses for losses that are both probable and estimable as of the balance sheet date. The evaluation of this portion of our portfolio generally considers default rates from industry data, internal risk ratings, loss given default assumptions, historical recovery rates, specific industry conditions, weather conditions, general economic and political conditions, and changes in the character, composition and performance of the portfolio, among other factors. We also consider overall portfolio indicators, including trends in internally risk-rated exposures, classified exposures, and historical charge-offs and recoveries. Additionally, we consider industry, geographic and portfolio concentrations, including current developments within operating segments, and modeling imprecision. Changes in these factors, or our assumptions and estimates thereof, could result in a change in the allowance and could have a direct and material impact on the provision for loan losses and our results of operations. The total allowance for credit losses is available to absorb probable and estimable credit losses within our entire portfolio.

We increase or decrease the allowance for credit losses by recording a provision or reversal for loan losses in the statement of income. We record loan losses against the allowance for loan losses when management determines that any portion of the loan or finance lease is uncollectible. We add subsequent recoveries, if any, to the allowance for loan losses. Transfers between the allowance for loan losses and the reserve for unfunded commitments can occur in conjunction with funding a seasonal line of credit or other loan and decreasing a related unfunded commitment or, conversely, receiving a loan payment and increasing a related unfunded commitment. Newly-executed loan commitments will also increase this liability.

We also assess the credit risk associated with off-balance sheet loan commitments and letters of credit and determine the appropriate level of reserve for unfunded commitments that should be recorded.

#### Cash

For purposes of these financial statements, cash represents deposits at banks and cash on hand which are used for operating or liquidity purposes.

#### Investment Securities

We classify investment securities as available-for-sale and report them at their estimated fair value. We have no trading or held-to-maturity securities. We amortize or accrete purchased premiums and discounts using the constant yield method, which approximates the interest method, over the terms of the respective securities. We report unrealized gains and losses, net of applicable income taxes and credit losses, in the accumulated other comprehensive income (loss) component of shareholders' equity on the consolidated balance sheets. We use the specific identification method for determining cost in computing realized gains and losses on sales of investment securities.

The accounting for investment securities obtained in the merger with AgBank is described in Note 3.

We evaluate investments in a loss position to determine if such a loss is other-than-temporary. If losses are deemed to be other-than-temporary, we record the portion related to credit losses in earnings and the portion related to all other factors in other comprehensive income (loss). For additional information, refer to Note 5.

#### Premises and Equipment

We carry premises and equipment at cost less accumulated depreciation and amortization. We provide for depreciation and amortization on the straight-line method over the estimated useful lives of the assets. We record gains and losses on dispositions in current operating results. We record maintenance and repairs to operating expenses when incurred and capitalize improvements.

We capitalize leased property and equipment meeting certain criteria and depreciate such assets using the straight-line method over the terms of the respective leases.

As part of the January 1, 2012 merger with AgBank, we acquired an office building located in Wichita, Kansas. As of December 31, 2013, we classified the building as an asset held for sale. We wrote the value of the building down to its fair value of \$8.5 million and recorded a loss of \$1.2 million, which is included in "Other Noninterest Income" in the consolidated statement of income for the year ended December 31, 2013.

#### Mineral Rights

As a result of our merger with AgBank, we own mineral rights in Arizona, California, Colorado, Kansas, Nevada, New Mexico, Oklahoma and Utah. As required by the merger agreement, the net earnings from these mineral rights are passed on directly to certain Associations formerly affiliated with AgBank. Mineral income is primarily generated from royalties on natural gas and crude oil production, leasing bonuses and rental payments. This income may vary from year to year based on fluctuations in energy demand, prices and production. In 2013, net mineral income passed directly to these Associations totaled \$15.5 million. As a result of the agreement to pass the net earnings from mineral rights to certain Associations, these mineral rights have no carrying value in our consolidated balance sheet.

#### Derivative Financial Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for fair value or cash flow hedge accounting. For derivatives not designated as hedging instruments, we record the related change in fair value in current period earnings.

We formally document all relationships between derivatives and hedged items, as well as risk management objectives and strategies for undertaking various hedge transactions. This process includes linking all derivatives that are designated as fair value or cash flow hedges to assets and liabilities on the consolidated balance sheets or to forecasted transactions.

We also formally assess (both at the hedge's inception and on an ongoing basis) whether the derivatives that are used in hedging transactions have been effective in offsetting changes in the fair value or cash flows of hedged items and whether those derivatives are expected to remain effective in future periods. We typically use regression analyses or other statistical analyses to assess the effectiveness of hedges. Hedge accounting is discontinued prospectively if: (i) it is determined that the derivative is no longer effective in offsetting changes in the fair value or cash flows of a hedged item; (ii) the derivative expires or is sold, terminated or exercised; or (iii) management determines that the fair value or cash flow hedge designation is no longer appropriate.

If we determine that a derivative no longer qualifies as an effective fair value or cash flow hedge, or if management removes the hedge designation, we continue to carry the derivative on the balance sheet at fair value, with changes in fair value recognized in current period earnings as part of noninterest income. For discontinued cash flow hedges, we amortize the component of other comprehensive income (loss) to net interest income over the original term of the hedge contract. For additional information, refer to Note 12.

#### Fair Value Measurements

Our fair value measurements represent the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. We maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The classification of assets and liabilities measured at fair value within the disclosure hierarchy is based on three levels of inputs to the fair value measurement process, which are described in Note 13.

#### Fair Value of Guarantor's Obligations

We provide standby letters of credit, which are irrevocable undertakings to guarantee payment of a specified financial obligation. As a guarantor, we recognize a liability for the fair value of the obligation undertaken in issuing the guarantee. Our liability for the fair value of these obligations is determined by applying a risk-adjusted spread percentage to those obligations.

#### Employee Benefit Plans

Our employee benefit plans are described in Note 9. The net expense for employee benefit plans is recorded as employee compensation expense. For defined benefit pension plans, we use the "Projected Unit Credit" actuarial method for financial reporting and funding purposes.

The anticipated costs of benefits related to postretirement health care and life insurance are accrued during the period of the employees' active service and are classified as employee compensation expense.

#### Income Taxes

CoBank, ACB operates as a non-exempt cooperative, which qualifies for tax treatment under Subchapter T of the Internal Revenue Code. Accordingly, amounts distributed as qualified patronage distributions to borrowers in the form of cash or stock may be deducted from taxable income. We base

provisions for income taxes for financial reporting purposes only on those taxable earnings that will not be distributed as qualified patronage distributions.

CoBank, FCB is a wholly-owned subsidiary of CoBank, ACB. Beginning in 2012, substantially all of the Bank's tax-exempt activities reside in CoBank, FCB.

We record deferred tax assets and liabilities for temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases except for our nontaxable entity. We measure these deferred amounts using the current marginal statutory tax rate on the taxable portion of our business activities. Calculating deferred tax assets and liabilities involves various management estimates and assumptions as to future taxable earnings. We expect to fully realize deferred tax assets based on the projected level of future taxable income and other factors.

See Note 10 for further information regarding income taxes.

#### Subsequent Events

We have evaluated subsequent events through March 3, 2014, which is the date the financial statements were issued.

## **Note 2 – Recently Issued or Adopted Accounting Pronouncements**

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In December 2011 and in January 2013, the Financial Accounting Standards Board (FASB) issued guidance creating new disclosure requirements about the nature of an entity's rights of setoff and related arrangements associated with its financial instruments and derivative instruments. The requirements are effective for annual reporting periods beginning on or after January 1, 2013, and interim periods within those annual periods, with retrospective application required. We adopted the new requirements in the first quarter of 2013. The adoption did not impact our consolidated financial position, results of operations or cash flows. We disclose the gross amounts of our derivative exposures and related cash collateral balances in our consolidated balance sheet. Adoption of this guidance had a minimal impact on our disclosures, which are contained in Note 12.

In February 2013, the FASB finalized guidance requiring entities to disclose certain information about changes in accumulated other comprehensive income. The guidance requires entities to present either parenthetically on the face of the financial statements or in the notes to the financial statements, significant amounts reclassified from each component of accumulated other comprehensive income and the income statement line items affected by the reclassification. The guidance is effective for public entities for annual periods beginning after December 15, 2012 and for non-public entities for annual periods beginning after December 15, 2013. We adopted these provisions in 2013. Refer to Note 8 for disclosure of amounts reclassified out of accumulated other comprehensive income and the effects of any reclassifications on net income. The adoption of these provisions did not impact our consolidated financial position, results of operations or cash flows.



## Note 3 – Merger with U.S. AgBank, FCB

Effective January 1, 2012, AgBank was merged with and into CoBank. As a result of the merger, the number of our affiliated Associations increased from four to 29, as of the merger date, and now includes Associations in 23 states serving the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. (The total number of our affiliated Associations declined to 27 on January 1, 2014 as a result of two mergers.) The effects of the merger are included in our results of operations, balance sheet, average balances and related metrics beginning in 2012.

On January 1, 2012, in connection with the merger, each share of outstanding common stock of AgBank was exchanged for one-twentieth of a share of common stock of CoBank. In addition, AgBank's preferred stock was exchanged for a new series of CoBank preferred stock with substantially the same terms and conditions. These transactions are further explained in Note 8.

The merger was accounted for under the acquisition method of accounting, as prescribed by Accounting Standards Codification (ASC) 805, Business Combinations (ASC 805). Pursuant to these rules, CoBank acquired the assets and assumed the liabilities of AgBank at their acquisition-date fair value. The fair value of the net identifiable assets acquired (\$1.04 billion) was substantially equal to the fair value of the equity interests exchanged in the merger. As a result, no goodwill was recorded. In addition, no material amounts of intangible assets were acquired. A net decrease of \$61.6 million was recorded in retained earnings related to the merger.

The following condensed statement of net assets acquired reflects the fair value assigned to AgBank's net assets as of the acquisition date. There were no subsequent changes to these fair values.

(\$ in Millions)

### Condensed Statement of Net Assets Acquired

	January 1, 2012
<b>Assets</b>	
Net Loans	\$ 20,200
Cash	226
Investment Securities	4,832
Accrued Interest Receivable	113
Interest Rate Swaps and Other	
Financial Instruments	85
Other Assets	100
<b>Total Assets</b>	<b>\$ 25,556</b>
<b>Liabilities</b>	
Bonds and Notes	\$ 24,306
Accrued Interest Payable	81
Other Liabilities	127
<b>Total Liabilities</b>	<b>\$ 24,514</b>
<b>Fair Value of Net Assets Acquired</b>	<b>\$ 1,042</b>

Fair value adjustments to AgBank's assets and liabilities included a \$553.0 million increase to loans and a \$700.4 million increase to bonds and notes to reflect changes in interest rates and other market conditions since the time these instruments were issued. These differences are being accreted or amortized into net interest income over the remaining life of the respective loans and debt instruments on an effective yield basis, with the majority being recognized in diminishing amounts in the first five years following the merger. We expect to collect the substantial majority of the contractual amounts of the acquired loans, which totaled \$19.7 billion at January 1, 2012.

In connection with the merger, we acquired investment securities with a contractual outstanding principal and interest balance of \$5.2 billion. We recorded these investments on our consolidated balance sheet at an estimated fair value of \$4.8 billion, consisting of U.S. Treasury and agency debt securities of \$643.9 million, U.S. agency mortgage-backed securities (MBS) of \$3.2 billion, Federal Agricultural Mortgage Corporation (Farmer Mac) MBS of \$252.9 million, FHA/VA non-wrapped reperformer MBS (i.e., investment securities where residential mortgage loans serving as collateral were cured after a default) of \$554.1 million, non-agency MBS of \$132.7 million, and asset-backed securities (ABS) of \$58.5 million.

We determined that certain of the acquired FHA/VA non-wrapped reperformer MBS, non-agency MBS and ABS had evidence of credit quality deterioration such that it is probable that we will be unable to collect all contractually required payments. These investments, which we refer to as acquired credit-impaired investment securities, are subject to the provisions of ASC 310-30, Accounting for Certain Loans or Debt Securities Acquired in a Transfer, pursuant to which the difference between contractually required payments and the cash flows expected to be collected at acquisition is considered a "non-accretable amount." This difference is neither accreted into income nor recorded on our consolidated balance sheet. The excess of cash flows expected to be collected over fair value is referred to as "accretable amounts" and is recognized in interest income over the remaining life of the investment using the effective yield method, with the majority being recognized in diminishing amounts in the first five years following the merger. The following table displays information related to the acquired credit-impaired investment securities.

(\$ in Millions)

### Information for Acquired Credit-Impaired Investment Securities as of January 1, 2012

Contractually Required Payments Including Interest	\$ 1,104
Non-accretable Amount	(103)
Cash Flows Expected to be Collected*	1,001
Accretable Amounts	(261)
<b>Fair Value of Acquired Credit-Impaired</b>	
Investment Securities	<b>\$ 740</b>

\* Represents the undiscounted expected principal and interest cash flows



At each reporting period we evaluate estimated cash flows expected to be collected from acquired credit-impaired investment securities. Increases in expected cash flows will generally result in an increase in interest income over the remaining life of the investment. Decreases in expected cash flows due to credit deterioration will generally result in other-than-temporary impairment charges recognized in earnings. During 2013 and 2012, we recorded \$1.5 million and \$7.0 million, respectively, in impairment losses related to certain securities that were among those identified as credit-impaired investment securities acquired as part of the AgBank merger.

(\$ in Millions)

#### Changes in Accretable Amounts of Acquired Credit-Impaired Investment Securities

	2013	2012
Balance at January 1	\$ (210)	\$ (261)
Interest Recognized in Earnings	43	44
Reclassifications from Nonaccretable Amount for Investments with Improvements in Expected Cash Flows	-	-
Total Other-Than-Temporary Impairment Losses Included in Earnings	2	7
Balance at December 31	\$ (165)	\$ (210)

The carrying amount of acquired credit-impaired investment securities was \$585.9 million and \$678.0 million at December 31, 2013 and 2012, respectively.

## Note 4 – Loans, Loan Quality and Allowance for Credit Losses

### Loans Outstanding

Loans outstanding by operating segment are shown below.

(\$ in Millions)

December 31,	2013		2012		2011	
	Amount	%	Amount	%	Amount	%
Agribusiness	\$ 21,182	29 %	\$ 21,394	30 %	\$ 18,869	41 %
Strategic Relationships	37,897	51	36,707	51	15,236	33
Rural Infrastructure	14,524	20	13,879	19	12,180	26
Total	\$ 73,603	100 %	\$ 71,980	100 %	\$ 46,285	100 %
Loans Purchased	\$ 11,113		\$ 9,574		\$ 8,600	
Loans Sold	11,791		10,915		8,617	

We have loans outstanding in all 50 states as well as 29 foreign countries and a limited number of U.S. territories. Our agricultural export finance loan portfolio, which is included in our Agribusiness operating segment, reflects concentration in U.S. government-sponsored trade financing programs which guarantee payment in the event of default by the borrower of generally 98 percent of loan principal outstanding and varying percentages of interest due. Of the \$4.5 billion in agricultural export finance loans outstanding as of December 31, 2013, 58 percent were guaranteed by the U.S. government under one of these trade financing programs, primarily the General Sales Manager program of the U.S. Department of Agriculture's Commodity Credit Corporation.

We make loans to customers in various industries. Industries that represent 10 percent or more of total loans outstanding (excluding direct wholesale loans to Associations) for any of the periods presented below are as follows:

December 31,	2013	2012	2011
Electric Distribution	8 %	7 %	11 %
Farm Supply and Grain Marketing	7	9	16

Loans to our affiliated Associations represented 46 percent of total loans outstanding at both December 31, 2013 and 2012, and 24 percent of total loans outstanding at December 31, 2011. As of December 31, 2013, our affiliated Associations provided financing and other financial services to farmer-owners for rural real estate, equipment, working capital, agricultural production and operating purposes in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. Participations in loans made by other System banks to their affiliated Associations represented 5 percent of our total loans outstanding at both December 31, 2013 and 2012, and 9 percent of our total loans outstanding at December 31, 2011, respectively.

Unamortized loan premiums and discounts, and unamortized deferred loan fees and costs totaled \$57.3 million, \$63.2 million and \$70.0 million as of December 31, 2013, 2012 and 2011, respectively.

## Allowance for Credit Losses

The following tables present the changes in the components of our allowance for credit losses and the details of the ending balances. The allowance for credit losses includes the allowance for loan losses and the reserve for unfunded commitments. The elements of our allowance for credit losses are presented by operating segment.

	Agribusiness	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
December 31, 2013				
<b>Allowance for Loan Losses</b>				
Beginning Balance	\$ 277,595	\$ -	\$ 159,781	\$ 437,376
Charge-offs	(1,622)	-	(26)	(1,648)
Recoveries	20,199	-	1,088	21,287
Provision for Loan Losses	(6,000)	-	6,000	-
Transfers (to) from Reserve for Unfunded Commitments <sup>(2)</sup>	(5,205)	-	(4,684)	(9,889)
Ending Balance	284,967	-	162,159	447,126
<b>Reserve for Unfunded Commitments</b>				
Beginning Balance	106,692	-	51,011	157,703
Transfers (to) from Allowance for Loan Losses <sup>(2)</sup>	5,205	-	4,684	9,889
Ending Balance	111,897	-	55,695	167,592
Allowance for Credit Losses	\$ 396,864	\$ -	\$ 217,854	\$ 614,718
<b>Allowance for Credit Losses</b>				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	\$ 8,550	\$ -	\$ 28,700	\$ 37,250
Collectively Evaluated for Impairment	388,314	-	189,154	577,468
Total	\$ 396,864	\$ -	\$ 217,854	\$ 614,718
<b>Loans</b>				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	\$ 53,249	\$ 38,015,890	\$ 94,600	\$ 38,163,739
Collectively Evaluated for Impairment	21,178,897	-	14,492,660	35,671,557
Total	\$ 21,232,146	\$ 38,015,890	\$ 14,587,260	\$ 73,835,296
December 31, 2012				
<b>Allowance for Loan Losses</b>				
Beginning Balance	\$ 269,317	\$ -	\$ 118,739	\$ 388,056
Charge-offs	(29,069)	-	(1,556)	(30,625)
Recoveries	11,022	-	2,707	13,729
Provision for Loan Losses	16,550	-	53,450	70,000
Transfers (to) from Reserve for Unfunded Commitments <sup>(2)</sup>	9,775	-	(13,559)	(3,784)
Ending Balance	277,595	-	159,781	437,376
<b>Reserve for Unfunded Commitments</b>				
Beginning Balance	116,467	-	37,452	153,919
Transfers (to) from Allowance for Loan Losses <sup>(2)</sup>	(9,775)	-	13,559	3,784
Ending Balance	106,692	-	51,011	157,703
Allowance for Credit Losses	\$ 384,287	\$ -	\$ 210,792	\$ 595,079
<b>Allowance for Credit Losses</b>				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	\$ 10,656	\$ -	\$ 32,700	\$ 43,356
Collectively Evaluated for Impairment	373,631	-	178,092	551,723
Total	\$ 384,287	\$ -	\$ 210,792	\$ 595,079
<b>Loans</b>				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	\$ 70,476	\$ 36,831,056	\$ 99,731	\$ 37,001,263
Collectively Evaluated for Impairment	21,381,372	-	13,837,987	35,219,359
Total	\$ 21,451,848	\$ 36,831,056	\$ 13,937,718	\$ 72,220,622

	Agribusiness	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
December 31, 2011				
<b>Allowance for Loan Losses</b>				
Beginning Balance	\$ 284,217	\$ -	\$ 116,527	\$ 400,744
Charge-offs	(10,559)	-	(12,956)	(23,515)
Recoveries	6,527	-	420	6,947
Provision for Loan Losses	37,000	-	21,000	58,000
Transfers (to) from Reserve for Unfunded Commitments <sup>(2)</sup>	(47,868)	-	(6,252)	(54,120)
Ending Balance	269,317	-	118,739	388,056
<b>Reserve for Unfunded Commitments</b>				
Beginning Balance	68,599	-	31,200	99,799
Transfers (to) from Allowance for Loan Losses <sup>(2)</sup>	47,868	-	6,252	54,120
Ending Balance	116,467	-	37,452	153,919
Allowance for Credit Losses	\$ 385,784	\$ -	\$ 156,191	\$ 541,975
<b>Allowance for Credit Losses</b>				
Ending Balance, Allowance for Credit Losses Related to Loans:				
Individually Evaluated for Impairment	\$ 16,254	\$ -	\$ 7,500	\$ 23,754
Collectively Evaluated for Impairment	369,530	-	148,691	518,221
Total	\$ 385,784	\$ -	\$ 156,191	\$ 541,975
<b>Loans</b>				
Ending Balance for Loans and Related Accrued Interest:				
Individually Evaluated for Impairment	\$ 80,351	\$ 15,275,708	\$ 54,511	\$ 15,410,570
Collectively Evaluated for Impairment	18,837,654	-	12,191,938	31,029,592
Total	\$ 18,918,005	\$ 15,275,708	\$ 12,246,449	\$ 46,440,162

<sup>(1)</sup> As a result of our strong collateral position with respect to loans to Associations, along with the earnings, capital and loss reserves of Associations that serve as an additional layer of protection against losses, no allowance for credit losses is recorded in our Strategic Relationships operating segment.

<sup>(2)</sup> These transfers generally occur as a result of advances on or repayments of seasonal lines of credit or other loans.

The information in the tables under the Credit Quality, Aging Analysis and Impaired Loans captions is presented by operating segment, with guaranteed and non-guaranteed loans in our Agribusiness segment separately identified.

### Credit Quality

The following tables present our loans and related accrued interest classified, by management, pursuant to our regulator's Uniform Loan Classification System.

December 31, 2013	Agribusiness		Agribusiness		Strategic		Rural		Total
	Non-Guaranteed		Guaranteed		Relationships		Infrastructure		
Acceptable	\$	17,789,946	\$	2,604,643	\$	38,015,890	\$	14,267,187	\$ 72,677,666
Special Mention		508,526		-		-		121,695	630,221
Substandard		318,719		-		-		169,286	488,005
Doubtful		10,312		-		-		29,092	39,404
Loss		-		-		-		-	-
Total	\$	18,627,503	\$	2,604,643	\$	38,015,890	\$	14,587,260	\$ 73,835,296
December 31, 2012									
Acceptable	\$	16,786,810	\$	3,512,387	\$	36,831,056	\$	13,579,205	\$ 70,709,458
Special Mention		618,149		4		-		160,913	779,066
Substandard		520,928		-		-		150,528	671,456
Doubtful		13,570		-		-		47,072	60,642
Loss		-		-		-		-	-
Total	\$	17,939,457	\$	3,512,391	\$	36,831,056	\$	13,937,718	\$ 72,220,622
December 31, 2011									
Acceptable	\$	14,753,661	\$	2,850,689	\$	15,275,708	\$	12,019,166	\$ 44,899,224
Special Mention		824,133		43		-		135,331	959,507
Substandard		473,432		-		-		84,452	557,884
Doubtful		16,047		-		-		7,500	23,547
Loss		-		-		-		-	-
Total	\$	16,067,273	\$	2,850,732	\$	15,275,708	\$	12,246,449	\$ 46,440,162

### Aging Analysis

The following tables present an aging of past due loans and related accrued interest.

December 31, 2013	Agribusiness		Agribusiness		Strategic		Rural		Total
	Non-Guaranteed		Guaranteed		Relationships		Infrastructure		
30-89 Days Past Due	\$	12,276	\$	-	\$	-	\$	-	\$ 12,276
90 Days Past Due		22,757		-		-		53,425	76,182
Total Past Due	\$	35,033	\$	-	\$	-	\$	53,425	\$ 88,458
Current		18,592,470		2,604,643		38,015,890		14,533,835	73,746,838
Total	\$	18,627,503	\$	2,604,643	\$	38,015,890	\$	14,587,260	\$ 73,835,296
Accruing Loans 90 Days or More Past Due	\$	972	\$	-	\$	-	\$	-	\$ 972
December 31, 2012									
30-89 Days Past Due	\$	7,609	\$	-	\$	-	\$	-	\$ 7,609
90 Days Past Due		21,608		-		-		5,296	26,904
Total Past Due	\$	29,217	\$	-	\$	-	\$	5,296	\$ 34,513
Current		17,910,240		3,512,391		36,831,056		13,932,422	72,186,109
Total	\$	17,939,457	\$	3,512,391	\$	36,831,056	\$	13,937,718	\$ 72,220,622
Accruing Loans 90 Days or More Past Due	\$	2,513	\$	-	\$	-	\$	-	\$ 2,513



December 31, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed	Strategic Relationships	Rural Infrastructure	Total
30-89 Days Past Due	\$ 68,847	\$ -	\$ -	\$ -	\$ 68,847
90 Days Past Due	20,126	-	-	-	20,126
Total Past Due	\$ 88,973	\$ -	\$ -	\$ -	\$ 88,973
Current	15,978,300	2,850,732	15,275,708	12,246,449	46,351,189
Total	\$ 16,067,273	\$ 2,850,732	\$ 15,275,708	\$ 12,246,449	\$ 46,440,162
Accruing Loans 90 Days or More Past Due	\$ 114	\$ -	\$ -	\$ -	\$ 114

## Impaired Loans

Impaired loan information is shown in the following tables. Loans past due 90 days or more and still accruing interest are adequately secured and in the process of collection.

December 31, 2013	Agribusiness Non-Guaranteed	Agribusiness Guaranteed <sup>(1)</sup>	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
Nonaccrual Loans <sup>(2)</sup>	\$ 53,249	\$ -	\$ -	\$ 94,600	\$ 147,849
Accruing Loans 90 Days or More Past Due	972	-	-	-	972
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	\$ 54,221	\$ -	\$ -	\$ 94,600	\$ 148,821
December 31, 2012					
Nonaccrual Loans <sup>(2)</sup>	\$ 70,476	\$ -	\$ -	\$ 99,731	\$ 170,207
Accruing Loans 90 Days or More Past Due	2,513	-	-	-	2,513
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	\$ 72,989	\$ -	\$ -	\$ 99,731	\$ 172,720
December 31, 2011					
Nonaccrual Loans <sup>(2)</sup>	\$ 80,350	\$ -	\$ -	\$ 54,512	\$ 134,862
Accruing Loans 90 Days or More Past Due	114	-	-	-	114
Accruing Restructured Loans	-	-	-	-	-
Total Impaired Loans	\$ 80,464	\$ -	\$ -	\$ 54,512	\$ 134,976

<sup>(1)</sup> There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

<sup>(2)</sup> Included in nonaccrual loans at December 31, 2013, 2012 and 2011 are \$66.3 million, \$24.7 million and \$17.3 million, respectively, of loans that qualify as troubled debt restructurings.

The following tables present information on impaired loans and related amounts in the allowance for loan losses.

	Agribusiness		Agribusiness		Strategic		Rural		
December 31, 2013	Non-Guaranteed		Guaranteed <sup>(1)</sup>		Relationships <sup>(1)</sup>		Infrastructure		Total
Impaired Loans With No Related Allowance for Loan Losses									
Carrying Amount	\$	33,173	\$	-	\$	-	\$	9,427	\$ 42,600
Unpaid Principal		44,670		-		-		10,889	55,559
Average Balance		50,530		-		-		10,832	61,362
Interest Income Recognized		2,236		-		-		2,477	4,713
Impaired Loans With Related Allowance for Loan Losses									
Carrying Amount		21,048		-		-		85,173	106,221
Unpaid Principal		24,891		-		-		90,858	115,749
Allowance for Loan Losses		8,550		-		-		28,700	37,250
Average Balance		20,143		-		-		77,457	97,600
Interest Income Recognized		-		-		-		-	-
Total Impaired Loans									
Carrying Amount		54,221		-		-		94,600	148,821
Unpaid Principal		69,561		-		-		101,747	171,308
Allowance for Loan Losses		8,550		-		-		28,700	37,250
Average Balance		70,673		-		-		88,289	158,962
Interest Income Recognized		2,236		-		-		2,477	4,713
December 31, 2012									
Impaired Loans With No Related Allowance for Loan Losses									
Carrying Amount	\$	52,902	\$	-	\$	-	\$	6,907	\$ 59,809
Unpaid Principal		97,720		-		-		15,744	113,464
Average Balance		56,076		-		-		24,333	80,409
Interest Income Recognized		1,674		-		-		1,702	3,376
Impaired Loans With Related Allowance for Loan Losses									
Carrying Amount		20,087		-		-		92,824	112,911
Unpaid Principal		23,058		-		-		96,747	119,805
Allowance for Loan Losses		10,656		-		-		32,700	43,356
Average Balance		15,528		-		-		37,584	53,112
Interest Income Recognized		4,351		-		-		-	4,351
Total Impaired Loans									
Carrying Amount		72,989		-		-		99,731	172,720
Unpaid Principal		120,778		-		-		112,491	233,269
Allowance for Loan Losses		10,656		-		-		32,700	43,356
Average Balance		71,604		-		-		61,917	133,521
Interest Income Recognized		6,025		-		-		1,702	7,727

December 31, 2011	Agribusiness Non-Guaranteed	Agribusiness Guaranteed <sup>(1)</sup>	Strategic Relationships <sup>(1)</sup>	Rural Infrastructure	Total
<b>Impaired Loans With No Related Allowance for Loan Losses</b>					
Carrying Amount	\$ 25,589	\$ -	\$ -	\$ 39,328	\$ 64,917
Unpaid Principal	37,584	-	-	50,344	87,928
Average Balance	39,996	-	-	42,547	82,543
Interest Income Recognized	4,888	-	-	32	4,920
<b>Impaired Loans With Related Allowance for Loan Losses</b>					
Carrying Amount	54,875	-	-	15,184	70,059
Unpaid Principal	75,761	-	-	16,893	92,654
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	65,783	-	-	17,450	83,233
Interest Income Recognized	-	-	-	-	-
<b>Total Impaired Loans</b>					
Carrying Amount	80,464	-	-	54,512	134,976
Unpaid Principal	113,345	-	-	67,237	180,582
Allowance for Loan Losses	16,254	-	-	7,500	23,754
Average Balance	105,779	-	-	59,997	165,776
Interest Income Recognized	4,888	-	-	32	4,920

<sup>(1)</sup> There were no impaired loans in our Agribusiness Guaranteed or Strategic Relationships portfolios for any of the periods presented.

Interest income forgone on nonaccrual and accruing restructured loans is as follows:

Year Ended December 31, 2013		
Interest Income Which Would Have Been Recognized Per Original Terms	\$	14,745
Less: Interest Income Recognized		(4,623)
Forgone Interest Income	\$	10,122

### Commitments on Impaired Loans

There were \$19.7 million in commitments available to be drawn by borrowers whose loans were classified as impaired at December 31, 2013.

### Troubled Debt Restructurings

Troubled debt restructurings (TDRs) are loans in which we have granted a concession because the borrower is experiencing financial difficulty. Concessions may include payment deferrals, term extensions and/or interest rate reductions. As of December 31, 2013, all TDRs are classified as nonaccrual loans. TDRs classified as nonaccrual loans, along with other impaired loans, may be returned to accruing status upon meeting specific criteria, as more fully described in Note 1. A summary of the number of modifications that qualified as TDRs and the dollar amounts before and after modification is as follows:

December 31,	2013	2012	2011
Number of Loan Modifications that Qualified as a TDR			
	1	1	2
Total Loan Amount Before Modification	\$ 52,566	\$ 25,515	\$ 11,589
Total Loan Amount After Modification	52,566	25,515	11,589

Subsequent to their restructuring, there have been no payment defaults on our TDR-classified loans.

### Leases Outstanding

A summary of the components of FCL's net investment in direct financing leases and property on operating leases is as follows:

(\$ in Millions)	December 31,	2013	2012	2011
<b>Net Investment in Direct Financing Leases:</b>				
Minimum Lease Payments to be Received,				
Net of Participation Interests	\$ 1,549	\$ 1,382	\$ 1,293	
Estimated Residual Values of Leased				
Property (Unguaranteed)	489	384	344	
Initial Direct Costs	16	12	11	
Less: Unearned Finance Income	(211)	(184)	(196)	
Net Investment in Direct Financing Leases	\$ 1,843	\$ 1,594	\$ 1,452	
<b>Property on Operating Leases:</b>				
Vehicles and Other Equipment	\$ 812	\$ 793	\$ 750	
Initial Direct Costs	3	3	2	
Total	815	796	752	
Less: Accumulated Depreciation	(343)	(327)	(327)	
Net Property on Operating Leases	\$ 472	\$ 469	\$ 425	
<b>Year Ended December 31,</b>				
Depreciation Expense	\$ 147	\$ 136	\$ 124	

At December 31, 2013, gross minimum lease payments to be received for direct financing leases and minimum future rental revenue for noncancelable operating leases are as follows:

(\$ in Millions)

Year	Minimum Lease Payments	Minimum Future Rental Revenue
2014	\$ 474	\$ 101
2015	365	67
2016	266	37
2017	188	17
2018	106	2
Subsequent Years	152	1

## Note 5 – Investment Securities

A summary of investment securities available-for-sale follows. See Note 13 for disclosures about estimated fair values of financial instruments, including investments.

(\$ in Millions)

December 31, 2013	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	\$ 9,959	\$ 58	\$ (54)	\$ 9,963
Mortgage-Backed:				
U.S. Agency	10,655	94	(131)	10,618
Farmer Mac	182	-	(3)	179
FHA/VA Non-Wrapped Reperformer	443	6	(9)	440
Non-Agency	201	21	(1)	221
Asset-Backed	127	27	(2)	152
Corporate Bonds	116	-	(1)	115
Total	\$ 21,683	\$ 206	\$ (201)	\$ 21,688

(\$ in Millions)

December 31, 2012	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	\$ 6,380	\$ 112	\$ (1)	\$ 6,491
Mortgage-Backed:				
U.S. Agency	10,237	122	(6)	10,353
Farmer Mac	217	-	(2)	215
FHA/VA Non-Wrapped Reperformer	507	5	(6)	506
Non-Agency	271	26	(5)	292
Asset-Backed	97	27	(3)	121
Corporate Bonds	21	-	-	21
Total	\$ 17,730	\$ 292	\$ (23)	\$ 17,999

(\$ in Millions)

December 31, 2011	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and Agency Debt	\$ 3,549	\$ 89	\$ -	\$ 3,638
Mortgage-Backed:				
U.S. Agency	8,899	166	(4)	9,061
Non-Agency	265	-	(23)	242
Asset-Backed	78	-	(24)	54
Total	\$ 12,791	\$ 255	\$ (51)	\$ 12,995

A summary of the contractual maturity, amortized cost, fair value and weighted average yield of investment securities by type at December 31, 2013 is as follows:

### U.S. Treasury and Agency Debt Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ 2,316	\$ 2,317	0.16 %
One to Five Years	6,542	6,573	0.96
Five to Ten Years	254	249	1.86
After Ten Years	847	824	1.34
Total	\$ 9,959	\$ 9,963	0.83

### U.S. Agency Mortgage-Backed Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	41	42	2.39
Five to Ten Years	142	145	2.25
After Ten Years	10,472	10,431	1.72
Total	\$ 10,655	\$ 10,618	1.73

### Farmer Mac Mortgage-Backed Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	182	179	2.64
Total	\$ 182	\$ 179	2.64



## FHA/VA Non-Wrapped Reperformer

### Mortgage-Backed Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	-	-	-
Five to Ten Years	-	-	-
After Ten Years	443	440	6.04
<b>Total</b>	<b>\$ 443</b>	<b>\$ 440</b>	<b>6.04</b>

### Non-Agency Mortgage-Backed Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	8	7	0.72
Five to Ten Years	-	-	-
After Ten Years	193	214	7.08
<b>Total</b>	<b>\$ 201</b>	<b>\$ 221</b>	<b>6.84</b>

### Asset-Backed Securities

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	46	46	0.44
Five to Ten Years	-	-	-
After Ten Years	81	106	9.95
<b>Total</b>	<b>\$ 127</b>	<b>\$ 152</b>	<b>6.48</b>

### Corporate Bonds

(\$ in Millions)

Contractual Maturity	Amortized Cost	Fair Value	Weighted Average Yield
In One Year or Less	\$ -	\$ -	- %
One to Five Years	116	115	1.24
Five to Ten Years	-	-	-
After Ten Years	-	-	-
<b>Total</b>	<b>\$ 116</b>	<b>\$ 115</b>	<b>1.24</b>

While the substantial majority of our MBS and most of our ABS have contractual maturities in excess of 10 years, expected maturities for these securities are shorter than contractual maturities because of structured cash flow features and because borrowers have the right to call or prepay obligations.

The following table shows the fair value and gross unrealized losses for investments in a loss position aggregated by security type, and the length of time the securities have been in a continuous unrealized loss position at December 31, 2013, 2012 and 2011, respectively. The continuous loss position is based on the date the impairment first occurred.

	Less Than 12 Months		Greater Than 12 Months	
(\$ in Millions)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<b>December 31, 2013</b>				
U.S. Treasury and Agency Debt	\$ 3,752	\$ (54)	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	3,492	(93)	679	(38)
Farmer Mac	55	(1)	124	(2)
FHA/VA Non-Wrapped Reperformer	106	(2)	144	(7)
Non-Agency	32	(1)	18	-
Asset-Backed	50	(1)	5	(1)
Corporate Bonds	70	(1)	-	-
<b>Total</b>	<b>\$ 7,557</b>	<b>\$ (153)</b>	<b>\$ 970</b>	<b>\$ (48)</b>
<b>December 31, 2012</b>				
U.S. Treasury and Agency Debt	\$ 1,191	\$ (1)	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	764	(6)	67	-
Farmer Mac	143	(2)	-	-
FHA/VA Non-Wrapped Reperformer	283	(5)	15	(1)
Non-Agency	6	-	83	(5)
Asset-Backed	-	-	10	(3)
Corporate Bonds	21	-	-	-
<b>Total</b>	<b>\$ 2,408</b>	<b>\$ (14)</b>	<b>\$ 175</b>	<b>\$ (9)</b>
<b>December 31, 2011</b>				
U.S. Treasury and Agency Debt	\$ -	\$ -	\$ -	\$ -
Mortgage-Backed:				
U.S. Agency	1,297	(3)	275	(1)
Non-Agency	57	(1)	143	(22)
Asset-Backed	-	-	54	(24)
<b>Total</b>	<b>\$ 1,354</b>	<b>\$ (4)</b>	<b>\$ 472</b>	<b>\$ (47)</b>

As of December 31, 2013, with the exception of the securities in the following table, we expect to collect all principal and interest payments on our investment securities. We do not intend to sell the securities in unrealized loss positions, and it is not likely that we will be required to sell such securities, for regulatory, liquidity or other purposes before an anticipated recovery of our cost basis occurs.

The following table summarizes other-than-temporary impairment (OTTI) losses recorded in earnings by security type for the periods presented.

(\$ in Millions)	Number of Securities	OTTI
<b>December 31, 2013</b>		
Non-Agency		
Mortgage-Backed	4	\$ 3
<b>Total</b>	<b>4</b>	<b>\$ 3</b>
<b>December 31, 2012</b>		
Asset-Backed	5	\$ 12
Non-Agency		
Mortgage-Backed	5	5
<b>Total</b>	<b>10</b>	<b>\$ 17</b>
<b>December 31, 2011</b>		
Asset-Backed	4	\$ 5
Non-Agency		
Mortgage-Backed	4	5
<b>Total</b>	<b>8</b>	<b>\$ 10</b>

The fair value of our securities with OTTI losses was \$217.9 million, \$196.3 million, and \$129.8 million at December 31, 2013, 2012, and 2011, respectively.

The following table details the activity related to the credit loss component of investment securities that have been written down for OTTI.

Credit Losses on Impaired Investments (\$ in Millions)			
	2013	2012	2011
Beginning of Year	\$ 64	\$ 48	\$ 59
Additional Credit Impairments Related to Securities Previously Impaired	-	9	7
Initial Credit Impairments Related to Securities Not Previously Impaired	3	8	3
Sales of Investments with Credit Impairments	-	-	(20)
Subsequent Accretion for Increases in Cash Flows Expected to be Collected	(2)	(1)	(1)
<b>End of Year</b>	<b>\$ 65</b>	<b>\$ 64</b>	<b>\$ 48</b>

For impaired investment securities, we estimate the component of unrealized losses attributable to credit losses primarily using a third-party cash flow model. The model requires key assumptions related to underlying collateral, including the degree and timing of prepayments and defaults and loss severity. Assumptions used are influenced by such factors as interest rates and the performance, type and age of collateral. For prepayment assumptions, we use the lower of the three- or six-month historical voluntary prepayment rate. Prepayment rates used ranged from zero to 26 percent (CPR) for impaired investment securities at December 31, 2013. We apply historical performance information to estimate future defaults using a default timing curve. Lifetime default rates ranged from 7 percent to 44 percent for impaired investment securities at December 31, 2013. Loss severity assumptions are based on the greater of the three- or six-month historical severities. Loss severity ranged from 16 percent to 100 percent for impaired investment securities at December 31, 2013.

## Note 6 – Bonds and Notes

We are primarily liable for the following bonds and notes:

(\$ in Millions)			
December 31,	2013	2012	2011
Bonds	\$ 73,166	\$ 74,154	\$ 49,174
Medium-term Notes	150	342	340
Discount Notes	12,395	6,927	4,278
<b>Total Systemwide</b>			
Debt Securities	85,711	81,423	53,792
Cash Investment			
Services Payable	2,309	1,614	1,515
Other	438	570	797
<b>Total Bonds and Notes</b>	<b>\$ 88,458</b>	<b>\$ 83,607</b>	<b>\$ 56,104</b>

### Systemwide Debt Securities

We, along with the other System banks, obtain funds for lending activities and operations primarily from the sale of debt securities issued by System banks through the Funding Corporation. These debt securities are composed of bonds, medium-term notes and discount notes and are collectively referred to as Systemwide Debt Securities. Pursuant to the Farm Credit Act, Systemwide Debt Securities are the general unsecured joint and several obligations of the System banks. Systemwide Debt Securities are not obligations of, and are not guaranteed by, the U.S. government or any agency or instrumentality thereof, other than the System banks.

Bonds and medium-term notes are issued at fixed or floating interest rates. Bonds have original maturities of three months to 30 years, while medium-term notes have original maturities ranging from one to 30 years. Discount notes are issued with maturities ranging from one to 365 days. The weighted average remaining maturity of CoBank's discount notes outstanding at December 31, 2013 was 113 days.

Cash investment services payable mature within one year. Other bonds and notes primarily represent cash collateral payable to derivative counterparties that have posted collateral to us.

The aggregate maturities and the weighted average interest rates of CoBank's Systemwide Debt Securities at December 31, 2013 are shown in the accompanying table. Weighted average interest rates include the effect of related derivative financial instruments.

(\$ in Millions)

#### Maturities and Rates of Systemwide Debt Securities

Year of Maturity	Bonds		Medium-term Notes		Discount Notes		Total	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
2014	\$ 20,505	0.42 %	\$ 7	8.20 %	\$ 12,395	0.10 %	\$ 32,907	0.30 %
2015	21,546	0.40	8	6.93	-	-	21,554	0.40
2016	8,053	0.65	16	6.30	-	-	8,069	0.66
2017	5,623	1.14	-	-	-	-	5,623	1.14
2018	3,030	1.74	-	-	-	-	3,030	1.74
2019 and thereafter	14,409	2.96	119	5.87	-	-	14,528	2.99
Total	\$ 73,166	1.05	\$ 150	6.08	\$ 12,395	0.10	\$ 85,711	0.92

Certain Systemwide Debt Securities include debt which may be called on the first call date and, subsequently, called daily or on each interest payment date thereafter. At December 31, 2013, callable debt was \$6.8 billion, with the range of first call dates being from January 2014 through September 2021.

#### Conditions for Issuing Systemwide Debt

Certain conditions must be met before we can participate in the issuance of Systemwide Debt Securities. One such condition of participation, required by the Farm Credit Act and FCA regulations, is that we must maintain specified, eligible, unencumbered assets at least equal in value to the total amount of debt obligations outstanding for which we are primarily liable. Such assets exceeded applicable debt by \$7.6 billion at December 31, 2013. This requirement does not provide holders of Systemwide Debt Securities with a security interest in any of our assets.

In addition, because System banks are contingently liable for Systemwide Debt Securities of the other System banks, the banks have entered into agreements to provide for mutual protection. The System banks and the Funding Corporation operate under a Second Amended and Restated Market Access Agreement (MAA) designed to address certain Funding Corporation statutory responsibilities. The MAA financial conditions establish mechanisms for monitoring, limiting and ultimately denying a troubled System bank's access to and participation in Systemwide debt issuances, thereby limiting other System banks' exposure to statutory joint and several liabilities. The MAA promotes the identification and resolution of financial problems of individual System banks in a timely manner. As required by the MAA, the System banks and the Funding Corporation undertake a periodic formal review of the MAA to consider whether any amendments are appropriate. Such review will be conducted during 2014.

The System banks and the Funding Corporation have also entered into an Amended and Restated Contractual Interbank Performance Agreement (CIPA). The CIPA establishes an agreed-upon standard of financial condition and performance for the System banks and their affiliated Associations (the Districts). The CIPA measures various ratios taking into

account the capital, asset quality, earnings, interest rate risk and liquidity of the Districts and System banks. At December 31, 2013, 2012 and 2011, all System banks, including CoBank, were in compliance with all of the conditions of participation for the issuance of Systemwide Debt Securities. Periodically, the ratios in the CIPA model are reviewed to take into consideration current performance standards in the financial services industry. A review will be conducted during 2014.

#### Insurance Fund

The Farm Credit Act established the Farm Credit System Insurance Corporation (Insurance Corporation) to administer the Farm Credit Insurance Fund (Insurance Fund). The Insurance Corporation insures the timely payment of principal and interest on Systemwide Debt Securities and carries out various other responsibilities.

The primary sources of funds for the Insurance Fund are premiums paid by the System banks and earnings on the Insurance Corporation assets. Premiums are determined and assessed to System banks semi-annually by the Insurance Corporation.

Each System bank is required to pay premiums into the Insurance Fund until the assets in the Insurance Fund reach the "secure base amount" (SBA), which is defined in the Farm Credit Act as 2 percent of the aggregate outstanding insured Systemwide Debt Securities (adjusted to reflect the reduced risk on loans or investments guaranteed by the U.S. or state governments) or such other percentage of the aggregate outstanding insured Systemwide Debt Securities as the Insurance Corporation in its sole discretion determines to be actuarially sound. When the amount in the Insurance Fund exceeds the SBA, the Insurance Corporation is required to reduce premiums, and, in some instances, may refund excess amounts, but must still ensure that premiums are sufficient to maintain the level of the Insurance Fund at the SBA.

The Insurance Fund ended 2011 above the SBA. In 2012, the Insurance Corporation approved and distributed the excess amounts to the System banks, and, as a result, in 2012, CoBank recorded a \$44.6 million refund from the Insurance Corporation. There were no premium refunds from the

Insurance Corporation in the years ended December 31, 2013 and 2011. The premium refund recorded in 2012 is classified in “Other, Net” within the “Noninterest Income/Expense” section of the consolidated statement of income for the year ended December 31, 2012.

The Insurance Corporation premium rates were 10 basis points, 5 basis points, and 6 basis points of adjusted insured debt obligations for the years ended December 31, 2013, 2012 and 2011, respectively.

The Insurance Fund is available to assist with the timely payment of principal and interest on Systemwide Debt Securities, in the event of a default by a System bank, to the extent that net assets are available in the Insurance Fund. No other liabilities reflected in our financial statements are insured by the Insurance Corporation.

In addition, the Insurance Fund could be used to ensure the retirement of System entities’ protected borrower equity at par or stated value and for other specified purposes. The Insurance Fund is also available for discretionary uses of providing assistance to certain troubled System institutions and to cover the operating expenses of the Insurance Corporation. As discussed on page 50, the Insurance Fund does not insure the obligations of Farmer Mac.

At December 31, 2013, the assets of the Insurance Fund aggregated \$3.5 billion. However, due to the other authorized uses of the Insurance Fund, there is no assurance that any available amount in the Insurance Fund will be sufficient to fund the timely payment of principal or interest on Systemwide Debt Securities in the event of a default by any System bank having primary liability thereon.

In September 2013, the Insurance Corporation entered into an agreement with the Federal Financing Bank, a federal instrumentality subject to the supervision and direction of the U.S. Treasury, pursuant to which the Federal Financing Bank will advance funds to the Insurance Corporation. Under its existing statutory authority, the Insurance Corporation will use these funds to provide assistance to the System banks in exigent market circumstances which threaten the banks’ ability to pay maturing debt obligations. The agreement provides for advances of up to \$10.0 billion and terminates on September 30, 2014, unless otherwise extended. Each funding obligation of the Federal Financing Bank is subject to various terms and conditions, including collateralization, and, as a result, there can be no assurance that funding will be available when needed by the System.

### Early Extinguishment of Debt

During 2013, we recorded losses of \$96.8 million on the early extinguishment of \$797.1 million of Systemwide Debt Securities. During 2012 and 2011, we recorded losses of \$86.7 million and \$50.4 million, respectively, on the early extinguishment of \$371.5 million and \$649.3 million of Systemwide Debt Securities, respectively. All losses on early extinguishment of debt are reported as a component of noninterest income.

## Note 7 – Subordinated Debt

We had subordinated debt outstanding of \$904.7 million at each of December 31, 2013 and 2012, and \$1.0 billion at December 31, 2011. In December 2012, we purchased \$95.3 million of our 7.875 percent fixed rate Series 2008A subordinated notes through a cash tender offer. As a result, we incurred losses of \$28.5 million, which were recorded as a component of noninterest income. Our subordinated debt was issued in April 2008 and June 2007, and is summarized in the table below.

### Subordinated Debt as of December 31, 2013

	Series 2008A	Series 2007A
Type	Unsecured subordinated notes	Unsecured subordinated notes
Issue Date	April 2008	June 2007
Maturity Date	April 2018	June 2022
Amount Outstanding (000)	\$404,685	\$500,000
Interest Rate (%)	7.875%	3-month USD LIBOR + 0.60% (0.843% at December 31, 2013)
Interest Payment Date	Semi-annually in cash on 15th day of April and October	Quarterly in cash on 15th day of March, June, September and December

The 2007 issuance of subordinated debt may be redeemed, in whole or in part, at our option, on June 15, 2017, and each of the 2007 and 2008 issuances of subordinated debt may be redeemed, in whole, at our option at any time upon the occurrence of certain defined regulatory conditions. Any redemption of subordinated debt will be at a redemption price of 100 percent of the principal amount, plus any accrued but unpaid interest to the date of redemption, provided we have made payment in full of all amounts then due in respect of our senior indebtedness.

Our subordinated debt is unsecured and junior to all other categories of creditors, including general creditors, and senior to all classes of shareholders. Interest on subordinated debt will be deferred if, as of the fifth business day prior to an interest payment date, any applicable minimum regulatory capital ratios are not satisfied. A deferral period may not last for more than the shorter of five consecutive years or the maturity date of the subordinated debt. We may not declare or pay any dividends or patronage distributions until interest payments are resumed and all deferred interest has been paid.

Our subordinated debt is not considered Systemwide debt and is not an obligation of, or guaranteed by, the Farm Credit System or any banks in the System, other than CoBank. Payments on our subordinated debt are not insured by the Insurance Corporation.



## Note 8 – Shareholders’ Equity

### Description of Equities

As of December 31, 2013, we had \$961.8 million of preferred stock and \$2.7 billion in common stock outstanding, as summarized in the table below.

	Stock		
	Preferred	Class A	Class A
Shares Authorized (000)	n/a <sup>(1)</sup>	Unlimited	Unlimited
Shares Outstanding (000)	8,960	1,051	25,724
Voting or Nonvoting	Nonvoting	Nonvoting	Voting
Par / Face Value (per share)	n/a <sup>(1)</sup>	\$ 100	\$ 100

<sup>(1)</sup> Shares authorized and par/face value varies by issuance. Refer to the table below.

Pursuant to our bylaws, we have a single class of common equity – Class A common stock. Class A shareholders that are directly eligible to borrow from CoBank, that borrow on a patronage basis and that are active borrowers, have voting rights. No other class of shareholders has voting rights.

On January 1, 2012, in conjunction with the merger, each share of outstanding common stock of AgBank (Class A Common Stock, \$5 par value, 177,162,554 shares outstanding; Class B Common Stock, \$5 par value, 200 shares outstanding; Class C Common Stock, \$5 par value, 200 shares outstanding) was exchanged for one-twentieth of a share of Class A common stock of CoBank (\$100 par value, 8,858,148 shares outstanding). In addition, AgBank’s \$225 million of preferred stock (\$1,000 par value, 225,000 shares outstanding) was exchanged for \$225 million of a new series (Series E) of CoBank non-cumulative perpetual preferred stock (\$1,000 par

value, 225,000 shares outstanding) with substantially the same terms and conditions.

Our shareholders have approved measures allowing CoBank to issue up to \$1.5 billion outstanding of preferred stock, subject to FCA approval, at any time through September 2018. These measures allow us to access third party capital more quickly and efficiently in response to dynamic market conditions, without the necessity of obtaining shareholder approval for each issuance.

Holders of common equities may not pledge, hypothecate or otherwise grant a security interest in such equities except as consented to by the Bank under FCA regulations. We have a statutory first lien on CoBank common stock. We pay dividends only on preferred stock.

In case of liquidation or dissolution, preferred stock, common stock and unallocated retained earnings would be distributed to shareholders, after the payment of all liabilities pursuant to FCA regulations, in the following order: (1) retirement of all Series D, Series E, Series F and Series G preferred stock at par plus all accrued but unpaid dividends for the then current dividend period; (2) retirement of all common stock at par; (3) retirement of all patronage surplus (a component of unallocated retained earnings) in amounts equal to the face amount of the applicable nonqualified written notices of allocation or such other notice; and (4) remaining unallocated retained earnings and reserves shall be paid to the holders of common stock in proportion to patronage to the extent possible.

The changes in the number of shares of common stock outstanding during 2013 are summarized in the following table.

Shares of Common Stock (in Thousands)	
Balance Outstanding at January 1, 2013	26,060
Issuances	1,031
Retirements	(316)
Balance Outstanding at December 31, 2013	26,775

### Preferred Stock

The following table summarizes our outstanding preferred stock as of December 31, 2013.

#### Preferred Stock as of December 31, 2013

	Series D	Series E	Series F	Series G
Type	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual	Non-Cumulative Perpetual
Issue Date	August 2009	January 2012	October 2012	April 2013
Shares Outstanding (000)	2,735	225	4,000	2,000
Amount Outstanding (000)	\$136,750	\$225,000	\$400,000	\$200,000
Par Value (per share)	\$50	\$1,000	\$100	\$100
Current Dividend Rate (%)	11.00%	3-month USD LIBOR + 1.18% (1.424% at December 31, 2013)	6.25%	6.125%
Next Change in Dividend Rate (% and dates)	n/a	n/a	3-month USD LIBOR + 4.557% beginning on October 1, 2022	n/a
Dividend Frequency	Quarterly	Quarterly	Quarterly	Quarterly
Optional Redemption Begins (date)	Quarterly calls on or after October 1, 2014 at par plus accrued dividends	July 2012 and each five year anniversary thereafter at par plus accrued dividends	Quarterly calls on or after October 1, 2022 at par plus accrued dividends	Quarterly calls on or after July 1, 2018 at par plus accrued dividends

On October 1, 2012, we redeemed our Series A and Series B cumulative perpetual preferred stock, totaling \$363.3 million. We used cash on hand to effectuate these redemptions. The dividend rates for our Series A and Series B preferred stock were 7.814 percent and 7.0 percent, respectively. Also in October 2012, we issued \$400 million of Series F non-cumulative perpetual preferred stock, representing four million shares at \$100 per share par value. We used the proceeds from the Series F preferred stock to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes.

On April 19, 2013, we issued \$200 million of Series G non-cumulative perpetual preferred stock, representing two million shares at \$100 per share par value. The dividend rate for our Series G preferred stock is 6.125 percent and is fixed for life. We used the net proceeds from the Series G preferred stock issuance to increase our regulatory capital pursuant to current FCA regulations and for general corporate purposes. Dividends on the Series G preferred stock, if declared by the Board of Directors in its sole discretion, are non-cumulative and are payable quarterly in arrears beginning on July 1, 2013. The Series G preferred stock is not mandatorily redeemable at any time. However, the Series G preferred stock will be redeemable at par value, in whole or in part, at our option, quarterly beginning on July 1, 2018. In addition, the Series G preferred stock will be redeemable in whole, at our option, at any time upon the occurrence of certain defined regulatory events. The Series G preferred stock ranks equally, both as to dividends and upon liquidation, to our outstanding Series D, E and F preferred stock, and senior to all of our outstanding common stock.

On July 1, 2013, we redeemed all of our outstanding Series C non-cumulative perpetual preferred stock totaling \$200 million. We used cash on hand to effectuate this redemption. The dividend rate for our Series C preferred stock was 11.0 percent through the date of redemption.

If preferred stock dividends are not paid for 18 months on any of our preferred stock, holders of all series of outstanding preferred stock, voting as a single class, will have the right to appoint two non-voting observers to attend our Board of Directors meetings until full dividends for a one year period are paid. In addition, other than pursuant to an order issued by our regulator, we may not enter into agreements restricting our ability to declare or pay preferred stock dividends.

All stock retirements, including preferred stock redemptions, require the approval of our Board of Directors. Payments of preferred stock dividends also require the approval of our Board of Directors.

## **Capitalization Requirements**

In accordance with the Farm Credit Act, eligible retail borrowers are required to purchase common stock in CoBank as a condition of borrowing. The minimum initial borrower investment is equal to the lesser of one thousand dollars or 2 percent of the amount of the loan. The minimum initial investment is generally received in cash at the time the borrower receives the loan proceeds.

Association customers are also required to invest in our common stock, as discussed on page 103.

Most agricultural export finance customers, customers of FCL and certain other borrowers are not required to purchase, nor do they own, common stock in CoBank. Likewise, they do not participate in patronage distributions.

Retirements of common stock, if any, are determined annually after the Board of Directors sets the target equity level. Net cash retirements are made at the sole discretion of the Board of Directors and are at book value not to exceed par or face value.

## **Patronage**

As a cooperative bank, we return a portion of our earnings to eligible common shareholders in the form of patronage distributions. Eligible common shareholders will receive total patronage for 2013 of \$414.5 million, of which \$338.0 million will be paid in cash in 2014 and the balance will be paid in common stock. For 2012 and 2011, total patronage was \$425.0 million and \$340.7 million, respectively, of which \$344.5 million and \$230.8 million, respectively, was paid in cash in the subsequent year. All patronage distributions require the approval of our Board of Directors.

## **Regulatory Capitalization Requirements and Restrictions**

The FCA's capital adequacy regulations require us to maintain certain minimum capital requirements and collateral standards.

We are prohibited from reducing permanent capital by retiring stock or making certain other distributions to shareholders unless prescribed capital standards are met. All such minimum regulatory capital requirements and collateral standards were met as of December 31, 2013.

At December 31, 2013, our permanent capital, total surplus, core surplus and net collateral ratios exceeded the regulatory minimums as noted in the following table.

## Capital Ratios as of December 31,

	Regulatory Minimums	2013	2012	2011
Permanent				
Capital Ratio	7.0 %	16.72 %	16.14 %	16.37 %
Total Surplus				
Ratio	7.0	15.74	15.22	16.01
Core Surplus				
Ratio	3.5	10.82	10.06	10.02
Net Collateral				
Ratio	104.0 <sup>(1)(2)</sup>	107.57	107.08	109.05

<sup>(1)</sup> The regulatory minimum net collateral ratio is 103.0 percent, but the FCA requires the higher 104.0 percent during a period in which we have Series A preferred stock or subordinated debt outstanding. Our Series A preferred stock was fully redeemed on October 1, 2012.

<sup>(2)</sup> As a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if the net collateral ratio falls below 105.0 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain a level of at least 105.0 percent.

Our capital and collateral ratios are calculated in accordance with FCA regulations, as summarized below.

- The permanent capital ratio is quarterly average permanent capital (generally shareholders' equity and subordinated debt subject to certain limitations, excluding accumulated other comprehensive income (loss) and other deductions) as a percentage of quarterly average risk-adjusted assets.

- The total surplus ratio is quarterly average total surplus (quarterly average permanent capital, net of purchased stock) as a percentage of quarterly average risk-adjusted assets.
- The core surplus ratio is quarterly average core surplus (generally unallocated retained earnings, non-cumulative preferred stock and a portion of common stock) as a percentage of quarterly average risk-adjusted assets.
- The net collateral ratio is net collateral (generally net loans and investments) divided by total liabilities, as adjusted to exclude subordinated debt (subject to certain limitations) and the fair value of certain derivatives.

Pursuant to FCA guidance, a portion of our common stock is included in core surplus, subject to certain conditions. This inclusion will continue on a temporary basis until December 31, 2014 or the point at which the FCA changes its capital regulations in a manner that would be inconsistent with this treatment. The FCA requires that we also calculate our core surplus ratio excluding common stock and has established a 3.0 percent minimum for such ratio. In addition, as a condition of the merger with AgBank, from January 1, 2012 through December 31, 2014, if our core surplus ratio excluding common stock falls below 5.59 percent, the Bank must notify the FCA and submit to them a written plan to restore and maintain the ratio to at least that level. As of December 31, 2013, our core surplus ratio excluding common stock was 9.06 percent.

## Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (loss) for 2013 are presented in the following table.

Changes in Accumulated Other Comprehensive Income (Loss) by Component <sup>(1)</sup>						
	Unrealized Gains/(Losses) On Investment Securities		Unrealized Gains/(Losses) on Interest Rate Swaps and Other Financial Instruments	Net Pension Adjustment	Total	
	Non-OTTI	OTTI				
Balance at January 1, 2013	\$ 188,624	\$ 19,215	\$ (11,261)	\$ (52,148)	\$	144,430
Other comprehensive income (loss) before reclassifications	(160,740)	(53,135)	9,201	16,264		(188,410)
Amounts reclassified from accumulated other comprehensive income (loss)	-	2,274	(186)	3,347		5,435
Net current-period other comprehensive income (loss)	(160,740)	(50,861)	9,015	19,611		(182,975)
Balance at December 31, 2013	\$ 27,884	\$ (31,646)	\$ (2,246)	\$ (32,537)	\$	(38,545)

<sup>(1)</sup> Amounts are presented net of tax. Amounts reclassified shown in parentheses indicate a decrease in accumulated other comprehensive income (loss).

The following table presents the effect of reclassifications out of accumulated other comprehensive income (loss) on net income.

Reclassifications from Accumulated Other Comprehensive Income (Loss)		
Year Ended December 31, 2013	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)	Location of Gain/Loss Recognized in Income Statement
Unrealized gains (losses) on OTTI investment securities:		
Sales gains and losses	\$ -	
Holding gains and losses	(2,500)	Noninterest Income - Net OTTI Losses Included in Earnings
Tax effect	226	Provision for Income Taxes
Unrealized gains (losses) on interest rate swaps and other financial instruments:		
Interest rate contracts	(1,191)	Interest Expense
Foreign exchange contracts	1,802	Interest Income
Tax effect	(425)	Provision for Income Taxes
Pension and other benefit plans:		
Net actuarial gain/loss	(5,269)	Operating Expenses - Employee Compensation
Prior service cost/credit	(129)	Operating Expenses - Employee Compensation
Tax effect	2,051	Provision for Income Taxes
Total reclassifications	\$ (5,435)	



## Note 9 – Employee Benefit Plans and Incentive Compensation Plans

### Employee Benefit Plans

We have employer-funded, qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. Effective January 1, 2007, the Bank closed the remaining qualified defined benefit pension plan to new participants.

We also have noncontributory, unfunded nonqualified supplemental executive retirement plans (SERPs) covering certain senior officers and specified other senior managers. In addition, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to two senior officers employed pursuant to employment agreements. The defined benefit pension plans, SERPs and ERP are collectively referred to as Retirement Plans. We hold assets in a trust fund related to our SERPs and ERP; however, such funds remain Bank assets and are not included as plan assets in the accompanying disclosures.

We have a 401(k) retirement savings plan pursuant to which we match a certain percentage of employees' elective contributions. In addition, under this plan, employees hired on or after January 1, 2007 receive additional, non-elective

employer defined contributions. Our contributions to the 401(k) retirement savings plan, which are recorded as employee compensation expense, were \$6.0 million, \$6.5 million and \$4.7 million for 2013, 2012 and 2011, respectively. For eligible senior managers, including our senior officers, we also have a nonqualified deferred compensation plan, which includes benefits not provided under the employee savings plan due to certain Internal Revenue Code limitations.

All retirement-eligible employees are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with these postretirement health care benefits. Participant contributions are adjusted annually.

Pursuant to the terms of the AgBank merger agreement, assets and obligations related to bank participants in AgBank's legacy defined benefit pension plans were transferred into CoBank's defined benefit pension plan as of the merger date. The merger agreement also required AgBank to make a \$17.2 million funding contribution effective with the transfer of the participants into the CoBank plan in 2012. In addition, we assumed certain nonqualified retirement plans as a result of the merger.

The following table provides a summary of the changes in the plans' projected benefit obligations and fair values of assets over the three-year period ended December 31, 2013, as well as a statement of funded status as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
<b>Change in Projected Benefit Obligation:</b>						
Benefit Obligation at Beginning of Year	\$ 297,948	\$ 205,704	\$ 179,292	\$ 5,970	\$ 5,596	\$ 5,342
Service Cost	7,243	6,920	6,113	307	252	402
Interest Cost on Benefit Obligation	11,735	12,787	9,327	233	257	272
Plan Participant Contributions	-	-	-	-	486	482
Plan Amendments	1,040	-	4,043	-	-	-
Merger Impact	-	71,236	-	-	657	-
Actuarial Loss (Gain)	(8,516)	19,250	14,482	(1,451)	(320)	7
Benefits Paid	(13,957)	(17,949)	(7,553)	(589)	(958)	(909)
Projected Benefit Obligation at End of Year	295,493	297,948	205,704	4,470	5,970	5,596
<b>Change in Plan Assets:</b>						
Fair Value of Plan Assets at Beginning of Year	256,173	171,361	167,796	-	-	-
Actual Return on Plan Assets	34,786	29,090	6,980	-	-	-
Employer Contributions	5,698	12,021	4,138	589	472	427
Contribution Required by Merger	-	17,200	-	-	-	-
Asset Transfer Related to Merger	-	44,450	-	-	-	-
Benefits Paid	(13,957)	(17,949)	(7,553)	(946)	(958)	(909)
Plan Participant Contributions	-	-	-	357	486	482
Fair Value of Plan Assets at End of Year	282,700	256,173	171,361	-	-	-
<b>Funded Status – Fair Value of Plan Assets</b>						
Less Than Projected Benefit Obligation	(12,793)	(41,775)	(34,343)	(4,470)	(5,970)	(5,596)
Net Amount Recognized - December 31	\$ (12,793)	\$ (41,775)	\$ (34,343)	\$ (4,470)	\$ (5,970)	\$ (5,596)

The projected benefit obligation and the accumulated benefit obligation for the Retirement Plans as of December 31 of each year are as follows.

	2013	2012	2011
Projected Benefit Obligation:			
Funded Qualified Plans	\$ 262,050	\$ 266,443	\$ 177,216
SERP/ERP	33,443	31,505	28,488
Total	\$ 295,493	\$ 297,948	\$ 205,704
Accumulated Benefit Obligation:			
Funded Qualified Plans	\$ 236,555	\$ 238,811	\$ 159,497
SERP/ERP	26,465	26,829	24,050
Total	\$ 263,020	\$ 265,640	\$ 183,547

The \$282.7 million in fair value of plan assets shown in the table on page 85 relates only to the qualified retirement plans. As depicted in the preceding table, such plans had a projected benefit obligation and an accumulated benefit obligation of \$262.1 million and \$236.6 million, respectively, as of December 31, 2013.

We hold assets in trust accounts related to our SERPs and ERP. Such assets had a fair value of \$27.1 million as of December 31, 2013, which is included in "Other Assets" in the consolidated balance sheet. Unlike the assets related to the qualified plans, those funds remain Bank assets and would be subject to general creditors in a bankruptcy or liquidation. Accordingly, they are not included as part of the assets in the table on page 85. As depicted in the preceding table, our SERPs and ERP had a projected benefit obligation and an accumulated benefit obligation of \$33.4 million and \$26.5 million, respectively, as of December 31, 2013.

The following table provides the amounts recognized in the consolidated balance sheets as of December 31 of each year.

	Retirement Plans			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Prepaid Pension Assets	\$ 20,650	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued Benefit Liabilities	(33,443)	(41,775)	(34,343)	(4,470)	(5,970)	(5,596)
Net Amounts Recognized	\$ (12,793)	\$ (41,775)	\$ (34,343)	\$ (4,470)	\$ (5,970)	\$ (5,596)

The following table presents the components of net periodic benefit cost for the plans.

	Retirement Plans			Other Postretirement Benefits		
	2013	2012	2011	2013	2012	2011
Service Cost	\$ 7,243	\$ 6,920	\$ 6,113	\$ 307	\$ 252	\$ 402
Interest Cost on Benefit Obligation	11,735	12,787	9,327	233	257	272
Expected Return on Plan Assets	(17,479)	(16,765)	(13,463)	-	-	-
Amortization of Prior Service Cost	219	235	(133)	-	-	-
Recognized Actuarial Loss (Gain)	5,269	4,351	3,482	(90)	189	(52)
Net Periodic Benefit Cost	\$ 6,987	\$ 7,528	\$ 5,326	\$ 450	\$ 698	\$ 622

We anticipate that our total pension expense for the Retirement Plans will be approximately \$5.2 million in 2014, as compared to \$7.0 million in 2013.

The following table displays the amounts included in accumulated other comprehensive income (loss), a component of shareholders' equity, related to our pension and other postretirement benefit plans.

	Qualified Retirement Plans	Nonqualified Retirement Plans	Other Postretirement Benefits	Total
Amounts Included in Accumulated Other Comprehensive Income (Loss) (Pre-Tax) at December 31, 2013				
Net Actuarial Loss (Gain)	\$ 41,583	\$ 10,463	\$ (3,277)	\$ 48,769
Prior Service Cost (Credit)	2,331	1,378	-	3,709
Amount Recognized in Accumulated Other Comprehensive Income (Loss) <sup>(1)</sup>	\$ 43,914	\$ 11,841	\$ (3,277)	\$ 52,478

<sup>(1)</sup> Amount recognized in accumulated other comprehensive income (loss), net of tax, is a loss of \$32.5 million as of December 31, 2013. Approximately \$1.5 million, net of tax, will be amortized from accumulated other comprehensive income (loss) into net periodic benefit cost in 2014.

## Assumptions

We measure plan obligations and annual expense using assumptions designed to reflect future economic conditions. As the bulk of pension benefits will not be paid for many years, the computations of pension expenses and benefits are based on assumptions about discount rates, estimates of annual increases in compensation levels and expected rates of return on plan assets.

The weighted average rate assumptions used in the measurement of our benefit obligations are as follows:

	2013	2012	2011
Discount Rate	4.85 %	4.05 %	4.80 %
Rate of Compensation Increase	4.75	4.75	4.75

The weighted average rate assumptions used in the measurement of our net periodic benefit cost are as follows:

	2013	2012	2011
Discount Rate	4.05 %	4.80 %	5.35 %
Expected Rate of Return on Plan Assets (Qualified Plans Only)	7.25	7.25	8.00
Rate of Compensation Increase	4.75	4.75	5.00

The discount rates are calculated using a spot yield curve method developed by an independent actuary. The approach maps a high-quality bond yield curve to the duration of the plans' liabilities, thus approximating each cash flow of the liability stream to be discounted at an interest rate specifically applicable to its respective period in time.

We establish the expected rate of return on plan assets based on a review of past and expected future anticipated returns on plan assets. The expected rate of return on plan assets assumption also matches the pension plans' long-term interest rate assumption used for funding purposes.

Assumed health care cost trend rates have an effect on the amounts reported for other postretirement benefits. For measurement purposes, a 7.5 percent annual rate of increase in the per capita cost of covered health care benefits was assumed for 2013. The rate was assumed to decrease by 0.5 percent each year through 2018 to 5.0 percent and remain at that level thereafter. A 1-percentage-point increase in the assumed health care cost trend rate would increase total annual service and interest cost by \$48 and total other postretirement benefit obligations by \$296 as of December 31, 2013. Conversely, a 1-percentage-point decrease in the assumed health care cost trend rate would decrease total annual service and interest cost by \$40 and total other postretirement benefit obligations by \$259.

## Plan Assets

The asset allocation target ranges for the pension plans follow the investment policy adopted by our retirement trust committee. This policy provides for a certain level of trustee flexibility in selecting target allocation percentages. The actual asset allocations at December 31, 2013, 2012 and 2011 are shown in the following table, along with the adopted range for target allocation percentages by asset class. The actual allocation percentages reflect the market values at year-end and may vary during the course of the year. Plan assets are generally rebalanced to a level within the target range each year at the direction of the trustees.

Retirement Plan Assets				
Asset Category	Target Allocation Range	Percentage of Plan Assets at December 31,		
		2013	2012	2011
Domestic Equity	40-50 %	48 %	43 %	46 %
Domestic Fixed Income	30-50	29	37	36
International Equity	0-10	10	10	8
Emerging Markets Equity and Fixed Income	0-10	5	5	4
Real Assets	0-5	3	5	6
Hedge Funds	0-10	5	-	-
Total	100 %	100 %	100 %	100 %

The assets of the pension plans consist primarily of investments in various domestic equity, international equity and bond funds. These funds do not contain any significant investments in a single entity, industry, country or commodity, thereby mitigating concentration risk. No CoBank stock or debt, or that of any other System institution, is included in these investments.

The following table presents major categories of plan assets that are measured at fair value at December 31, 2013 for each of the fair value hierarchy levels as defined in Note 13.

Fair Value Measurements				
December 31, 2013				
Asset Category	Level 1	Level 2	Level 3	Total
Cash	\$ 1,141	\$ -	\$ -	\$ 1,141
Domestic Equity:				
Large-cap Growth Funds <sup>(1)</sup>	62,080	53,703	-	115,783
Small-cap Growth Fund <sup>(1)</sup>	-	18,842	-	18,842
International Equity:				
International Fund <sup>(2)</sup>	29,683	-	-	29,683
Fixed Income:				
Total Return Fund <sup>(3)</sup>	83,141	-	-	83,141
Emerging Markets:				
Equity and Fixed Income Fund <sup>(4)</sup>	-	12,799	-	12,799
Real Assets: Gold Fund <sup>(5)</sup>	8,482	-	-	8,482
Hedge Funds <sup>(6)</sup>	-	-	12,829	12,829
<b>Total</b>	<b>\$ 184,527</b>	<b>\$ 85,344</b>	<b>\$ 12,829</b>	<b>\$ 282,700</b>

<sup>(1)</sup> Funds invest primarily in diversified portfolios of common stocks of U.S. companies in various industries, including information technology, consumer goods and services, healthcare, financial services and energy.

<sup>(2)</sup> Fund invests primarily in a diversified portfolio of equities of non-U.S. companies in various industries, including financial services, information technology, healthcare, telecommunications, energy and consumer goods.

<sup>(3)</sup> Fund invests primarily in a diversified portfolio of investment grade debt securities and cash instruments.

<sup>(4)</sup> Fund invests in equities and corporate debt securities of companies located in emerging international markets. Industries include financial services, energy, and information technology. Fund also invests in the sovereign debt of various countries.

<sup>(5)</sup> Fund invests in gold bullion.

<sup>(6)</sup> Funds invest in diversified portfolios of stocks, bonds and various other financial instruments in a variety of industries including healthcare, financial services, consumer goods and services, and information technology.

Investment strategy and objectives are described in the pension plans' formal investment policy document. The basic strategy and objectives are to manage portfolio assets with a long-term time horizon appropriate for the participant demographics and cash flow requirements; to optimize long-term funding requirements by generating rates of return sufficient to fund liabilities and exceed the long-term rate of inflation; and to provide competitive investment returns as measured against appropriate benchmarks.

### Expected Contributions

We expect to contribute approximately \$4.1 million to our funded, qualified defined benefit pension plans in 2014 and a net \$0.4 million, after reflecting collected retiree premiums, to our other postretirement benefit plans in 2014. We also expect to contribute approximately \$2.5 million to our trust fund related to our SERPs and ERP in 2014. Our actual 2014 contributions could differ from the estimates noted above.

### Estimated Future Benefit Payments

We expect to make the following benefit payments, which reflect expected future service, as appropriate.

Estimated Benefit Payments		
Year:	Retirement Benefits	Other Postretirement Benefits
2014	\$ 17,735	\$ 386
2015	18,517	406
2016	18,677	393
2017	20,155	404
2018	19,135	395
2019 to 2023	106,764	1,663

### Incentive Compensation Plans

We have a broad-based, Board-approved short-term incentive compensation plan covering substantially all employees pursuant to which annual cash awards may be earned. Criteria used to determine amounts payable include the achievement of specified financial measures and strategic business objectives, which are approved annually by the Compensation Committee of the Board of Directors. Individual performance is also considered in the determination of the amounts payable.

We also have a Board-approved long-term incentive compensation plan, pursuant to which cash awards may be earned by senior officers and specified other senior managers who have a significant impact on long-term financial performance. Criteria used to determine amounts payable include achievement of certain Bank financial targets and strategic business objectives over a three-year performance period. Cash awards are to be paid subsequent to completion of each three-year period, subject to approval by the Compensation Committee of the Board of Directors.

Level 1 plan assets are funds with quoted daily net asset values that are directly observable by market participants. The fair value of these funds is the net asset value at close of business on the reporting date. Level 2 plan assets are funds with quoted net asset values that are not directly observable by market participants. A significant portion of the underlying investments in these funds have individually observable market prices, which are utilized by the plan's trustee to determine a net asset value at close of business on the reporting date. Level 3 plan assets are funds with unobservable net asset values and supported by limited or no market activity. Changes in Level 3 plan assets for the current year included only purchases of the assets. No transfers into or out of the three levels of assets occurred in the current year.



Under the terms of the short-term incentive compensation plan, a minimum return on active patron stock investment must be achieved in order for a payout to be approved. Likewise, a minimum return on active patron stock investment must be achieved in each year within the three-year performance period for a full payout under the long-term incentive plan. The required minimum return on active patron stock investment was 11 percent for all performance periods disclosed herein.

## Note 10 – Income Taxes

The components of the provision for income taxes are as follows:

Year Ended December 31,	2013	2012	2011
<b>Current:</b>			
Federal	\$ 93,236	\$ 162,968	\$ 79,914
State	8,816	31,362	14,518
Total Current	102,052	194,330	94,432
<b>Deferred:</b>			
Federal	47,953	(20,633)	90,246
State	8,964	(10,006)	11,428
Total Deferred	56,917	(30,639)	101,674
Total	\$ 158,969	\$ 163,691	\$ 196,106
<b>Comprehensive Tax Provision</b>			
Allocable to:			
Pre-Tax Income	\$ 158,969	\$ 163,691	\$ 196,106
Shareholders' Equity -			
Amounts Allocated to:			
Investment Securities	(49,642)	16,511	21,988
Derivatives	186	(168)	981
Pension Liability	12,020	(695)	(8,271)
Total	\$ 121,533	\$ 179,339	\$ 210,804

The components of deferred tax assets and liabilities are shown below.

December 31,	2013	2012	2011
Allowance for Credit Losses	\$ 208,594	\$ 200,576	\$ 176,334
Employee Benefits	32,738	51,719	41,436
Loan Origination Fees	11,066	15,941	19,851
Other Deferred Tax Assets	37,180	48,116	43,539
Gross Deferred Tax Assets	289,578	316,352	281,160
Leasing	524,673	482,191	480,418
Unrealized Net Gains on			
Investment Securities			
and Derivatives	12,737	62,192	45,851
Other Deferred Tax Liabilities	16,481	16,801	14,714
Gross Deferred Tax Liabilities	553,891	561,184	540,983
Net Deferred Tax Liabilities	\$ (264,313)	\$ (244,832)	\$ (259,823)

Deferred income taxes are provided for the change in temporary differences between the basis of certain assets and liabilities for financial reporting and income tax reporting purposes except for our nontaxable entity. The expected future tax rates are based upon enacted tax laws.

We have concluded that it is more likely than not that the deferred tax assets will be realized based on our history of earnings, sources of taxable income in carry back periods, and our ability to implement tax planning strategies.

The effective tax rates for the years ended December 31, 2013, 2012 and 2011 of 15.7 percent, 16.1 percent and 21.7 percent, respectively, were less than the statutory income tax rate primarily due to \$414.5 million, \$425.0 million and \$340.7 million, respectively, of patronage distributions which are tax deductible, if made by our taxable entity, as permitted by Subchapter T of the Internal Revenue Code. The nontaxable activities conducted in the FCB subsidiary also contributed to a lower effective tax rate.

Year Ended December 31,	2013	2012	2011
Federal Tax at Statutory Rate	\$ 355,398	\$ 356,162	\$ 315,943
State Tax, Net	11,256	14,478	17,196
Patronage Distributions			
Allocated by:			
Taxable Entity	(74,398)	(80,801)	(118,434)
Nontaxable Entity	(72,986)	(67,599)	n/a
Effect of Nontaxable Entity	(57,023)	(54,919)	n/a
Tax-Exempt Activities	(58)	(55)	(20,546)
Other	(3,220)	(3,575)	1,947
Provision for Income Taxes	\$ 158,969	\$ 163,691	\$ 196,106

We will distribute 41 percent of income before income taxes to our shareholders as patronage distributions related to 2013, compared to 42 percent for 2012 and 38 percent for 2011.

A reconciliation of the beginning and ending amount of unrecognized tax benefits, excluding interest and penalties, is as follows:

Year Ended December 31, 2013	
Balance at Beginning of Year	\$ 6,647
Additions Based on Tax Positions Related to the Current Year	1,045
Additions for Tax Positions of Prior Years	735
Reductions for Tax Positions of Prior Years	(2,612)
Lapse of Applicable Statute of Limitations	(651)
Balance at End of Year	\$ 5,164
Year Ended December 31, 2012	
Balance at Beginning of Year	\$ 5,244
Additions Based on Tax Positions Related to the Current Year	1,455
Additions for Tax Positions of Prior Years	973
Reductions for Tax Positions of Prior Years	(279)
Lapse of Applicable Statute of Limitations	(746)
Balance at End of Year	\$ 6,647
Year Ended December 31, 2011	
Balance at Beginning of Year	\$ 4,102
Additions Based on Tax Positions Related to the Current Year	1,102
Additions for Tax Positions of Prior Years	430
Reductions for Tax Positions of Prior Years	(29)
Settlements	(115)
Lapse of Applicable Statute of Limitations	(246)
Balance at End of Year	\$ 5,244

The total amount of unrecognized tax benefits that, if recognized, would impact the effective tax rate is \$4.7 million. We do not currently believe that the unrecognized tax benefits will change significantly within the next 12 months.

CoBank is no longer subject to federal tax examination for periods before 2010.

CoBank files tax returns in most states each year and is under continuous examination by various state taxing authorities. With few exceptions, we are no longer subject to state and local income tax examinations by taxing authorities for periods before 2010. For all open audits, any potential adjustments have been considered in establishing our reserve for uncertain tax positions as of December 31, 2013.

We recognize interest and penalties accrued related to unrecognized tax benefits as a component of the provision for income taxes. During the year ended December 31, 2013, we recognized a decrease of approximately \$0.5 million in interest and penalties. We had approximately \$2.2 million and \$2.7 million of interest and penalties accrued at December 31, 2013 and 2012, respectively.

## Note 11 – Financial Instruments With Off-Balance Sheet Risk

We utilize various financial instruments with off-balance sheet risk to satisfy the financing needs of our borrowers and to manage our exposure to interest rate risk. Such financial instruments include commitments to extend credit and commercial letters of credit. Commitments to extend credit are agreements to lend to a borrower provided that certain contractual conditions are met. Commercial letters of credit are agreements to pay a beneficiary under conditions specified in the letter of credit. Commitments and letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. At December 31, 2013, outstanding commitments to extend credit and commercial letters of credit were \$27.1 billion and \$476.6 million, respectively.

Since many of these commitments may expire without being drawn, the total commitments do not necessarily represent future cash requirements. Our exposure to many of these commitments is mitigated by borrowing base requirements contained in loan agreements. However, these credit-related financial instruments have off-balance sheet credit risk because their amounts are not reflected on the consolidated balance sheets until funded or drawn upon. The credit risk associated with issuing commitments and commercial letters of credit is substantially the same as that involved in extending loans to borrowers. Therefore, management applies the same credit policies to these commitments. The amount of collateral obtained, if deemed necessary upon extension of credit, is based on management's credit evaluation of the borrower. As discussed in Note 1, we maintain a reserve for unfunded commitments.

For a fee, we provide financial standby letters of credit for borrowers, which are irrevocable commitments to guarantee payment of a specified financial obligation. We also provide performance standby letters of credit which are irrevocable agreements by us, as a guarantor, to make payments to the guaranteed party in the event a specified third-party fails to perform under a nonfinancial contractual obligation, such as a third-party failing to timely deliver certain commodities at a specified time and place. We also issue indemnification agreements that function like guarantees. These indemnification agreements contingently require us, as the indemnifying party guarantor, to make payments to an indemnified party under certain specified circumstances. Certain recourse provisions would enable us, as a guarantor, to recover from third parties any of the amounts paid under guarantees, thereby limiting our maximum potential exposure.

As of December 31, 2013, the maximum potential amount of future payments that we may be required to make under our outstanding standby letters of credit was \$1.5 billion, with a fair value of \$9.8 million, which is included in other liabilities in the consolidated balance sheet. Payment/performance risk of the standby letters of credit guarantee is assessed using the same internal customer credit ratings that we use to manage credit risk in our loan portfolio. These outstanding standby letters of credit have expiration dates ranging from January 2014 to June 2028.

## Note 12 – Derivative Financial Instruments and Hedging Activities

### Risk Management Objectives and Strategies

We maintain an overall interest rate risk management strategy that incorporates the use of derivative financial instruments to manage liquidity and to minimize significant unplanned fluctuations in earnings that are caused by interest rate volatility. Our goal is to manage interest rate sensitivity by modifying the repricing frequency or effective maturity of certain balance sheet assets and liabilities. We also maintain a foreign exchange risk management strategy to reduce the impact of currency fluctuations on our relatively nominal amount of foreign currency-denominated loans. As a result of interest rate and foreign exchange rate fluctuations, fixed-rate assets and liabilities will appreciate or depreciate in market value. The effect of this unrealized appreciation or depreciation is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities. Interest rate and foreign exchange fluctuations also cause interest income and interest expense of variable-rate assets and liabilities to increase or decrease. The effect of this variability in earnings is expected to be substantially offset by gains and losses on the derivative instruments that are linked to these assets and liabilities.

### Uses of Derivatives

To achieve risk management objectives and satisfy the financing needs of our borrowers, we execute various derivative transactions with other financial institutions. Derivatives (primarily interest rate swaps) are used to manage liquidity and the interest rate risk arising from maturity and repricing mismatches between assets and liabilities. Under interest rate swap arrangements, we agree with a third-party to exchange, at specified intervals, payment streams calculated on a specified notional amount, with at least one payment stream based on a specified floating-rate index. We use a variety of interest rate swaps including the exchange of floating-rate for fixed-rate swaps and fixed-rate for floating-rate swaps with payment obligations tied to specific indices. In addition, we execute foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. We also enter into derivatives for our customers as a service to enable them to transfer, modify or reduce their interest rate risk and foreign exchange risk by transferring such risk to us. We substantially offset this risk

transference by concurrently entering into offsetting agreements with counterparties.

The notional amounts and related activity of derivatives at December 31, 2013, 2012 and 2011 are shown in the following table.

Activity in the Notional Amounts of Derivative Financial Instruments				
(\$ in Millions)	Swaps	Caps	Spots and Forwards	Total
December 31, 2012	\$ 23,020	\$ 3,049	\$ 292	\$ 26,361
Additions /Accretion	4,005	205	3,274	7,484
Maturities /Amortization	(4,884)	(570)	(3,287)	(8,741)
Terminations	(159)	-	-	(159)
December 31, 2013	\$ 21,982	\$ 2,684	\$ 279	\$ 24,945
December 31, 2011	\$ 23,255	\$ 1,999	\$ 299	\$ 25,553
Acquired Related to				
Merger	1,280	1,465	-	2,745
Additions /Accretion	4,955	820	2,603	8,378
Maturities /Amortization	(6,434)	(1,130)	(2,610)	(10,174)
Terminations	(36)	(105)	-	(141)
December 31, 2012	\$ 23,020	\$ 3,049	\$ 292	\$ 26,361
December 31, 2010	\$ 28,699	\$ 2,056	\$ 199	\$ 30,954
Additions /Accretion	6,226	-	5,271	11,497
Maturities /Amortization	(8,937)	(38)	(5,171)	(14,146)
Terminations	(2,733)	(19)	-	(2,752)
December 31, 2011	\$ 23,255	\$ 1,999	\$ 299	\$ 25,553

### Accounting for Derivative Instruments and Hedging Activities

We record derivatives as assets or liabilities at their fair value on the consolidated balance sheets. We record changes in the fair value of a derivative in current period earnings or accumulated other comprehensive income (loss), depending on the use of the derivative and whether it qualifies for hedge accounting. For fair value hedge transactions that hedge changes in the fair value of assets or liabilities, changes in the fair value of the derivative will generally be offset in the statement of income by changes in the hedged item's fair value attributable to the risk being hedged. For cash flow hedge transactions, in which we hedge the variability of future cash flows related to a variable-rate asset or liability, changes in the fair value of the derivative are reported in accumulated other comprehensive income (loss). The gains and losses on the derivatives that we report in accumulated other comprehensive income (loss) will be reclassified as earnings in the periods in which earnings are affected by the variability of the cash flows of the hedged item. We record the ineffective portion of all hedges in current period earnings.

For our customer transactions, which are not designated as hedging instruments, we record the related changes in fair value in current period earnings. We substantially offset this risk transference by concurrently entering into offsetting agreements with counterparties, with the changes in fair value of these transactions also recorded in current period earnings.

## Fair Value Hedges

The majority of the fair value hedging activity relates to entering into interest rate swaps primarily to convert our non-prepayable fixed-rate debt to floating-rate debt to achieve our liquidity management strategy. The amount converted depends on contractual interest rates and maturities. For the remaining fair value hedges, we enter into receive-fixed, pay-floating swaps to align our equity positioning strategy with our risk management strategy. For fair value hedges, the amount of hedge ineffectiveness is recognized as net interest income in current period earnings.

## Cash Flow Hedges

We purchase interest rate caps to hedge cap risk embedded within a portion of our floating-rate investment securities. The interest rate caps hedge floating-rate debt cash flows that fund the cash flows from floating-rate investment securities. If the strike rates in the purchased interest rate caps are exceeded, we receive cash flows on the derivative to hedge our floating-rate funding exposure above such strike levels. We also enter into foreign exchange spot and forward contracts to manage currency risk on loans denominated in foreign currencies. Typically, foreign currency contracts are purchased to fund the principal cash flows of the loan and simultaneously sold to lock in the principal and interest cash flows upon repricing or maturity date of the loan. For cash flow hedges, the amount of hedge ineffectiveness, the amount excluded from effectiveness assessment, and the amounts reclassified from accumulated other comprehensive income (loss) into current period earnings are all reflected in net interest income. At December 31, 2013, we expect that \$1.2 million of expense will be reclassified from accumulated other comprehensive income (loss) into earnings in the next 12 months, based on the anticipated cash flows of existing financial instruments. The maximum term over which we are hedging our exposure to the variability of future cash flows for all forecasted transactions is approximately 20 years.

## Derivatives Not Designated As Hedges

Derivative agreements with our customers and the related offsetting derivative agreements with counterparties are not designated as hedging instruments and do not receive hedge accounting treatment. Accordingly, any changes in the fair value of these customer related derivatives are recognized immediately as noninterest income/expense in current period earnings.

## Counterparty Credit Risk

The use of derivatives for risk management introduces credit risk related to counterparties and market risk related to movements in interest rates. Generally, when the fair value of a derivative contract is positive, we are exposed to counterparty credit risk.

To minimize the risk of credit losses, all derivative transactions are governed by master swap agreements, which include bilateral collateral arrangements, requiring the Bank or our counterparties to post collateral on a daily basis with thresholds set at zero for all active dealer counterparties. The master swap agreements also include netting agreements requiring the net settlement of covered contracts with the same counterparty in the event of default by the other party. The “net” mark-to-market exposure represents the netting of the positive and negative exposures with that counterparty. Notwithstanding these protections, we are exposed to intra-day credit risk with these counterparties. Derivative transactions with our customers are secured through our loan agreements. We record derivative exposures and related cash collateral balances at gross amounts in our consolidated balance sheets. As of December 31, 2013, our counterparties had posted \$424.6 million in cash and \$132.5 million in securities as collateral with us. The maximum amount of losses we could be exposed to in the event of nonperformance by dealer counterparties to our derivative positions, net of collateral held by us, was \$6.7 million, \$12.8 million and \$18.6 million at December 31, 2013, 2012 and 2011, respectively.

## Hedge Terminations

During 2013, we terminated approximately \$0.5 million in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges. During 2012, we terminated interest rate caps of \$105.0 million in notional value to reduce our credit exposure to a counterparty. These caps had been accounted for as cash flow hedges. During 2011, we terminated approximately \$2.6 billion in notional value of interest rate swaps for asset-liability management purposes. These swaps were accounted for as fair value hedges. We received proceeds of \$31.8 million as a result of the 2011 hedge contract terminations, which were reflected under operating activities in the consolidated statement of cash flows for 2011. The previous fair value adjustments to the fixed-rate debt that was hedged by these contracts will be amortized over the remaining life of the debt.

We terminated interest rate swaps with customers and offsetting dealer counterparties totaling notional value of \$158.5 million, \$36.0 million, and \$190.0 million in 2013, 2012 and 2011, respectively. Proceeds from the customer terminations were offset by proceeds from the offsetting dealer terminations.



A summary of the impact of derivative financial instruments on our consolidated balance sheets as of December 31, 2013, 2012 and 2011 is shown below.

Fair Value of Derivative Financial Instruments		
As of December 31, 2013	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 527,375	\$ 12,118
Foreign Exchange Contracts	595	1,828
Total Derivatives Designated as Hedging Instruments	\$ 527,970	\$ 13,946
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 144,774	\$ 106,247
Foreign Exchange Contracts	1,278	1,114
Total Derivatives Not Designated as Hedging Instruments	\$ 146,052	\$ 107,361
<b>Total Derivatives</b>	<b>\$ 674,022</b>	<b>\$ 121,307</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2013.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2013.

Fair Value of Derivative Financial Instruments		
As of December 31, 2012	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 810,295	\$ -
Foreign Exchange Contracts	319	2,108
Total Derivatives Designated as Hedging Instruments	\$ 810,614	\$ 2,108
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 192,377	\$ 153,774
Foreign Exchange Contracts	2,124	1,998
Total Derivatives Not Designated as Hedging Instruments	\$ 194,501	\$ 155,772
<b>Total Derivatives</b>	<b>\$ 1,005,115</b>	<b>\$ 157,880</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2012.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2012.

Fair Value of Derivative Financial Instruments		
As of December 31, 2011	Fair Value of Derivative Assets <sup>(1)</sup>	Fair Value of Derivative Liabilities <sup>(2)</sup>
Derivatives Designated as Hedging Instruments		
Interest Rate Contracts	\$ 884,219	\$ 14
Foreign Exchange Contracts	3,980	180
Total Derivatives Designated as Hedging Instruments	\$ 888,199	\$ 194
Derivatives Not Designated as Hedging Instruments		
Interest Rate Contracts	\$ 157,052	\$ 133,602
Foreign Exchange Contracts	3,378	3,149
Total Derivatives Not Designated as Hedging Instruments	\$ 160,430	\$ 136,751
<b>Total Derivatives</b>	<b>\$ 1,048,629</b>	<b>\$ 136,945</b>

<sup>(1)</sup> These assets make up the "Interest Rate Swaps and Other Financial Instruments" assets in the consolidated balance sheet as of December 31, 2011.

<sup>(2)</sup> These liabilities make up the "Interest Rate Swaps and Other Financial Instruments" liabilities in the consolidated balance sheet as of December 31, 2011.

A summary of the impact of derivative financial instruments on our consolidated statements of income and comprehensive income for the years ended December 31, 2013, 2012 and 2011 is shown in the following tables.

Derivative Financial Instruments in Fair Value Hedging Relationships			
Year Ended December 31,	Net Amount of Gain or (Loss) Recognized in Income on Derivative and Hedged Item <sup>(1)</sup>		
	2013	2012	2011
Interest Rate Contracts	\$ 5,008	\$ 4,204	\$ 394
<b>Total</b>	<b>\$ 5,008</b>	<b>\$ 4,204</b>	<b>\$ 394</b>

<sup>(1)</sup> Located in Interest Expense in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011. For 2013 and 2012, amounts predominantly consist of the accretion of fair value adjustments resulting from the AgBank merger.

## Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivative <sup>(2)</sup>
December 31, 2013			
Interest Rate			
Contracts	\$ 9,256	\$ (1,191) <sup>(3)</sup>	\$ -
Foreign Exchange			
Contracts	556	1,802 <sup>(4) (5)</sup>	(353) <sup>(4)</sup>
Total	\$ 9,812	\$ 611	\$ (353)

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment

<sup>(3)</sup> Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2013

<sup>(4)</sup> Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2013

<sup>(5)</sup> Fully offset by a (\$1,802) loss on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2013

## Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivative <sup>(2)</sup>
December 31, 2011			
Interest Rate			
Contracts	\$ (3,640)	\$ (2,401) <sup>(3)</sup>	\$ -
Foreign Exchange			
Contracts	(5,072)	(4,311) <sup>(4) (5)</sup>	(2,178) <sup>(4)</sup>
Total	\$ (8,712)	\$ (6,712)	\$ (2,178)

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment

<sup>(3)</sup> Located in Interest Expense in the consolidated statement of income for the year ended December 31, 2011

<sup>(4)</sup> Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2011

<sup>(5)</sup> Fully offset by a \$4,311 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2011

## Derivative Financial Instruments in Cash Flow Hedging Relationships

Year Ended	Amount of Gain or (Loss) Recognized in Accumulated Other Comprehensive Income (Loss) on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Reclassified from Accumulated Other Comprehensive Income (Loss) to Income on Derivative <sup>(1)</sup>	Amount of Gain or (Loss) Recognized in Income on Derivative <sup>(2)</sup>
December 31, 2012			
Interest Rate			
Contracts	\$ (6,917)	\$ (1,465) <sup>(3)</sup>	\$ -
Foreign Exchange			
Contracts	(5,589)	(5,571) <sup>(4) (5)</sup>	(216) <sup>(4)</sup>
Total	\$ (12,506)	\$ (7,036)	\$ (216)

<sup>(1)</sup> Effective portion

<sup>(2)</sup> Ineffective portion and amount excluded from effectiveness assessment

<sup>(3)</sup> Located in Interest Expense in the consolidated income statement for the year ended December 31, 2012

<sup>(4)</sup> Located in Interest Income – Loans in the consolidated statement of income for the year ended December 31, 2012

<sup>(5)</sup> Fully offset by a \$5,571 gain on foreign currency denominated loans (hedged items) which is also located in Interest Income - Loans in the consolidated statement of income for the year ended December 31, 2012

## Derivative Financial Instruments not Designated as Hedging Relationships

Year Ended	Net Amount of Gain or (Loss) Recognized in Income On Derivative <sup>(1)</sup>		
December 31,	2013	2012	2011
Interest Rate Contracts	\$ 6,978	\$ 13,105	\$ 11,930
Foreign Exchange Contracts	37	(102)	20
Total	\$ 7,015	\$ 13,003	\$ 11,950

<sup>(1)</sup> Located in Other Noninterest Income/Expense in the consolidated statements of income for the years ended December 31, 2013, 2012 and 2011

## Asset/Liability Offsetting

As noted previously, derivative transactions with swap dealers include bilateral collateral and netting agreements that require the net settlement of covered contracts. Derivative transactions with customers are collateralized through loan agreements. Notwithstanding collateral and netting provisions, our derivative assets and liabilities are not offset in the

accompanying consolidated balance sheets. The amount of collateral received or pledged is calculated on a net basis, by counterparty.

The following table summarizes derivative assets and liabilities, related accrued interest and amounts of collateral exchanged pursuant to our agreements.

### Offsetting of Financial and Derivative Instruments

	Gross Amounts of Assets/Liabilities Presented in the Consolidated Balance Sheets	Amounts Not Offset In the Consolidated Balance Sheets		Net Amount
		Cash Collateral Received/ Pledged <sup>(1)</sup>	Investment Securities Received/Pledged as Collateral <sup>(1)</sup>	
As of December 31, 2013				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	\$ 585,687	\$ 424,570	\$ 132,510	\$ 28,607
Customer	88,335	-	-	88,335
Accrued Interest Receivable on Derivative Contracts	83,452	-	-	83,452
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	83,921	10,130	-	73,791
Customer	37,386	-	-	37,386
Accrued Interest Payable on Derivative Contracts	3,952	-	-	3,952
As of December 31, 2012				
Assets:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	\$ 818,749	\$ 555,920	\$ 195,300	\$ 67,529
Customer	186,366	-	-	186,366
Accrued Interest Receivable on Derivative Contracts	86,653	-	-	86,653
Liabilities:				
Interest Rate Swaps and Other Financial Instruments:				
Dealer	152,896	17,000	-	135,896
Customer	4,984	-	-	4,984
Accrued Interest Payable on Derivative Contracts	1,947	-	-	1,947

<sup>(1)</sup> Cash collateral received is recognized in the consolidated balance sheets whereas investment securities received are not recognized in the consolidated balance sheets.

## Note 13 – Disclosure About Estimated Fair Value of Financial Instruments

The fair value of financial instruments represents the estimated amount to be received to sell an asset or paid to transfer or extinguish a liability (an exit price) in active markets among willing participants at the reporting date. The FASB has established a three-level fair value hierarchy aimed at maximizing the use of observable inputs – that is, inputs that reflect the assumptions market participants would use in pricing an asset or liability. Observable inputs are based on market data obtained from sources independent of the reporting entity. Unobservable inputs are supported by limited or no market activity and require significant management judgment or estimation.

Due to the uncertainty of expected cash flows resulting from financial instruments, the use of different assumptions and valuation methodologies could significantly affect the estimated fair value amounts. Accordingly, certain estimated fair values may not be indicative of the amounts for which the financial instruments could be exchanged in a current or future market transaction.

A description of the methods, assumptions and inputs to the valuation process used to determine or estimate the fair value of each class of financial instruments within the three-level hierarchy follows.

### Level 1

Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Our Level 1 assets at December 31, 2013 consist of assets held in a trust fund related to deferred compensation and our SERPs and ERP. The trust fund includes investments in securities that are actively traded and have quoted net asset value prices that are directly observable in the marketplace.

### Level 2

Level 2 inputs include quoted prices for similar assets and liabilities in active markets; quoted prices in markets that are not active; and inputs that are observable, or can be corroborated, for substantially the full term of the asset or liability. Our Level 2 assets and liabilities at December 31, 2013 include our derivative contracts, collateral balances related to derivative contracts, U.S. Treasury and agency debt investment securities, non-agency MBS, corporate bonds, the substantial majority of agency MBS, and a limited number of ABS.

The fair value of our derivative financial instruments is the estimated amount to be received to sell a derivative asset or paid to transfer or extinguish a derivative liability in active markets among willing participants at the reporting date. Estimated fair value is determined through internal market valuation models. These models use an income approach and incorporate benchmark interest rate curves (primarily the USD LIBOR/swap curve), volatilities, counterparty credit quality and other inputs that are observable directly or indirectly in the marketplace. We compare internally calculated derivative valuations to broker/dealer quotes to substantiate the results.

The fair value of collateral assets and liabilities related to derivative contracts is their face value, plus accrued interest, as these instruments are cash balances; therefore, fair value approximates face value.

The fair value of our investment securities classified as Level 2 is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs and assumptions related to these models are typically observable in the marketplace. Such models incorporate prepayment assumptions and underlying collateral information to generate cash flows that are discounted using appropriate benchmark interest rate curves and volatilities. These third-party valuation models also incorporate information regarding non-binding broker/dealer quotes, available trade information, historical cash flows, credit ratings, and other market information. Such valuations represent an estimated exit price, or price to be received by a seller in active markets to sell the investment securities to a willing participant. The estimated fair values of investment securities also appear in Note 5.

The following table presents information about valuation techniques and inputs to Level 2 fair value measurements.

Information About Valuation Techniques and Inputs to Level 2 Fair Value Measurements		
	Valuation Technique	Inputs
Investment Securities	Third-Party Pricing Service	Prepayment Rate
		Lifetime Default Rate
		Loss Severity
		Benchmark Yield Curve
		Quoted Prices
Interest Rate Swaps and Other Financial Instruments	Discounted Cash Flow	Benchmark Yield Curve
		Counterparty Credit Risk
		Volatility
Collateral Assets and Collateral Liabilities	Carrying Value	Par/Principal Plus Accrued Interest

### Level 3

Level 3 inputs are unobservable and supported by limited or no market activity. Our Level 3 assets at December 31, 2013 include our Farmer Mac MBS, FHA/VA non-wrapped reperformer MBS, the majority of our ABS and a limited number of agency MBS. Based on the lack of active trading volume and an orderly market for these securities, we classified these securities as Level 3. Market value for all Farmer Mac MBS is calculated internally using third-party models. Market value for FHA/VA non-wrapped reperformer MBS is determined by taking the lower of the value calculated internally using third-party models and the value determined by a third-party pricing service. Market value for ABS and Level 3 agency MBS is determined by a third-party pricing service that uses valuation models to estimate current market prices. Inputs into all of these valuation models include underlying collateral data and projected losses as well as information for prepayment speeds and discounting spreads. Due to the lack of marketplace information, the inputs into these valuation models primarily represent management



assumptions, with some corroboration to market inputs where information is available.

Level 3 assets at December 31, 2013 also include \$29.9 million of loans originally measured at cost, which were written down to fair value as a result of impairment. The valuation of these assets requires a determination of the fair value of the underlying collateral, which may include the use of independent appraisals or other market-based information to develop a management estimate of fair value. As a result, these fair value measurements fall under Level 3 in the fair value hierarchy; however, they are excluded from the following tables on pages 98 and 99 because they are not measured on a recurring basis.

Our Level 3 liabilities at December 31, 2013 include standby letters of credit whose market value is internally calculated based on information that is not observable either directly or indirectly in the marketplace.

No transfers into or out of the three levels of assets occurred in the current year.

The following table presents quantitative information about Level 3 fair value measurements as of December 31, 2013.

Quantitative Information About Valuation Techniques and Unobservable Inputs to Level 3 Fair Value Measurements					
(\$ in Millions)	Fair Value	Valuation Technique	Unobservable Inputs	Range	
Assets					
Investment Securities:					
U.S. Agency Mortgage-Backed	\$ 55	Third-Party Pricing Service	Prepayment Rate	*	
Farmer Mac Mortgage-Backed	179	Discounted Cash Flow	Prepayment Rate	9-12 percent	
			Mark-to-Market Spread	1 percent	
FHA/VA Non-Wrapped Reperformer Mortgage-Backed	440	Lower of Discounted Cash Flow or Third-Party Pricing Service	Prepayment Rate	6-10 percent *	
			Lifetime Default Rate	1-21 percent *	
			Loss Severity	11-13 percent *	
Asset-Backed	106	Third-Party Pricing Service	Prepayment Rate	*	
			Lifetime Default Rate	*	
			Loss Severity	*	
Impaired Loans	30	Appraisal	Income/Expense Data	**	
			Comparable Sales	**	
			Replacement Cost	**	
Liabilities					
Standby Letters of Credit	\$ 10	Discounted Cash Flow	Mark-to-Market Spread	0.2-2 percent	
* Excludes ranges which are determined by a third-party pricing service					
** Range of inputs are unique to each collateral property					

## Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following tables present the assets and liabilities that are measured at fair value on a recurring basis at December 31, 2013, 2012 and 2011 for each of the fair value hierarchy levels.

Assets and Liabilities Measured at Fair Value on a Recurring Basis				
December 31, 2013				
(\$ in Millions)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment Securities:				
U.S. Treasury and Agency Debt	\$ -	\$ 9,963	\$ -	\$ 9,963
Mortgage-Backed:				
U.S. Agency	-	10,563	55	10,618
Farmer Mac	-	-	179	179
FHA/VA Non-Wrapped				
Reperformer	-	-	440	440
Non-Agency	-	221	-	221
Asset-Backed	-	46	106	152
Corporate Bonds	-	115	-	115
Interest Rate Swaps and				
Other Financial Instruments	-	674	-	674
Assets Held in Trust				
(included in Other Assets)	58	-	-	58
Collateral Assets (included in Other Assets)				
	-	10	-	10
<b>Total Assets</b>	<b>\$ 58</b>	<b>\$ 21,592</b>	<b>\$ 780</b>	<b>\$ 22,430</b>
<b>Liabilities</b>				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 121	\$ -	\$ 121
Collateral Liabilities				
(included in Bonds and Notes)	-	425	-	425
Standby Letters of Credit				
(included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 546</b>	<b>\$ 10</b>	<b>\$ 556</b>

December 31, 2012				
(\$ in Millions)	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
Investment Securities:				
U.S. Treasury and Agency Debt	\$ -	\$ 6,491	\$ -	\$ 6,491
Mortgage-Backed:				
U.S. Agency	-	10,275	78	10,353
Farmer Mac	-	-	215	215
FHA/VA Non-Wrapped				
Reperformer	-	-	506	506
Non-Agency	-	292	-	292
Asset-Backed	-	-	121	121
Corporate Bonds	-	21	-	21
Interest Rate Swaps and				
Other Financial Instruments	-	1,005	-	1,005
Assets Held in Trust				
(included in Other Assets)	51	-	-	51
Collateral Assets (included in Other Assets)				
	-	17	-	17
<b>Total Assets</b>	<b>\$ 51</b>	<b>\$ 18,101</b>	<b>\$ 920</b>	<b>\$ 19,072</b>
<b>Liabilities</b>				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 158	\$ -	\$ 158
Collateral Liabilities				
(included in Bonds and Notes)	-	556	-	556
Standby Letters of Credit				
(included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 714</b>	<b>\$ 10</b>	<b>\$ 724</b>
December 31, 2011				
<b>Assets</b>				
Investment Securities:				
U.S. Treasury and Agency Debt	\$ -	\$ 3,638	\$ -	\$ 3,638
Mortgage-Backed:				
U.S. Agency	-	9,061	-	9,061
Non-Agency	-	242	-	242
Asset-Backed	-	-	54	54
Interest Rate Swaps and				
Other Financial Instruments	-	1,049	-	1,049
Assets Held in Trust				
(included in Other Assets)	36	-	-	36
Collateral Assets (included in Other Assets)				
	-	15	-	15
<b>Total Assets</b>	<b>\$ 36</b>	<b>\$ 14,005</b>	<b>\$ 54</b>	<b>\$ 14,095</b>
<b>Liabilities</b>				
Interest Rate Swaps and				
Other Financial Instruments	\$ -	\$ 137	\$ -	\$ 137
Collateral Liabilities				
(included in Bonds and Notes)	-	792	-	792
Standby Letters of Credit				
(included in Other Liabilities)	-	-	10	10
<b>Total Liabilities</b>	<b>\$ -</b>	<b>\$ 929</b>	<b>\$ 10</b>	<b>\$ 939</b>

The following table presents the changes in Level 3 assets and liabilities measured at fair value on a recurring basis:

#### Level 3 Assets and Liabilities Measured at Fair Value on a Recurring Basis

(\$ in Millions)	U.S. Agency Mortgage- Backed Securities	Farmer Mac Mortgage- Backed Securities	FHA/VA Non-Wrapped Reperformer Mortgage- Backed Securities	Asset- Backed Securities	Standby Letters of Credit
Balance at December 31, 2012	\$ 78	\$ 215	\$ 506	\$ 121	\$ 10
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	(1)	-	-
Included in Other Comprehensive Income	(11)	(1)	(2)	1	-
Issuances	-	-	-	-	7
Settlements	(14)	(34)	(85)	(21)	(7)
Accretion	2	(1)	22	5	-
Balance at December 31, 2013	\$ 55	\$ 179	\$ 440	\$ 106	\$ 10
Balance at December 31, 2011	\$ -	\$ -	\$ -	\$ 54	\$ 10
Level 3 Assets Acquired in Merger	89	253	554	59	-
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	(12)	-
Included in Other Comprehensive Income	-	(1)	(1)	43	-
Issuances	-	-	-	-	7
Settlements	(12)	(36)	(77)	(26)	(7)
Accretion	1	(1)	30	3	-
Balance at December 31, 2012	\$ 78	\$ 215	\$ 506	\$ 121	\$ 10
Balance at December 31, 2010	\$ -	\$ -	\$ -	\$ 118	\$ 11
Total Gains or Losses (Realized/Unrealized):					
Included in Other Noninterest Expense	-	-	-	(5)	-
Included in Other Comprehensive Income	-	-	-	1	-
Sales	-	-	-	(41)	-
Issuances	-	-	-	-	7
Settlements	-	-	-	(19)	(8)
Balance at December 31, 2011	\$ -	\$ -	\$ -	\$ 54	\$ 10

#### Estimated Fair Value of Certain Other Financial Instruments

The following table presents the estimated fair values of financial instruments that are recorded in the consolidated balance sheets at cost, as well as certain off-balance sheet financial instruments, as of December 31, 2013, 2012 and 2011.

(\$ in Millions)	December 31, 2013			December 31, 2012			December 31, 2011		
	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Fair Value Hierarchy
<b>Financial Assets:</b>									
Net Loans	\$ 73,156	\$ 73,941	Level 3	\$ 71,543	\$ 73,800	Level 3	\$ 45,897	\$ 47,647	Level 3
<b>Financial Liabilities:</b>									
Bonds and Notes	\$ 88,458	\$ 88,297	Level 3	\$ 83,607	\$ 85,183	Level 3	\$ 56,104	\$ 57,678	Level 3
Subordinated Debt	905	909	Level 3	905	990	Level 3	1,000	955	Level 3
<b>Off-Balance Sheet Financial Instruments:</b>									
Commitments to Extend Credit	\$ -	\$ (105)	Level 3	\$ -	\$ (100)	Level 3	\$ -	\$ (102)	Level 3

## Net Loans

Our loan portfolio includes fixed- and floating-rate loans. Since no active trading market exists for most of our loans, fair value is estimated by discounting the expected future cash flows using current interest rates at which similar loans would be made to borrowers with similar credit risk.

## Bonds and Notes

Bonds and notes are not all traded in the secondary market and those that are traded may not have readily available quoted market prices. Therefore, the fair value of the instruments is estimated by calculating the discounted value of the expected future cash flows. The discount rates used are based on the sum of quoted market yields for the U.S. Treasury yield curve and an estimated yield-spread relationship between Farm Credit debt securities and U.S. Treasury securities. We estimate an appropriate yield-spread taking into consideration bank and security dealer yield indications, observed new Government Sponsored Enterprise debt security pricing, and pricing levels in the related USD interest rate swap market.

## Subordinated Debt

The fair value of subordinated debt is estimated based upon quotes obtained from a broker/dealer.

## Commitments to Extend Credit

The fair value of commitments to extend credit is estimated by applying a risk-adjusted spread percentage to these obligations.

The following table presents information about valuation techniques and inputs to other fair value measurements.

Information About Valuation Techniques and Inputs to Other Fair Value Measurements		
	Valuation Technique	Input
Net Loans	Discounted Cash Flow	Prepayment Rate
		Mark-to-Market Spread
		Benchmark Yield Curve
		Probability of Default
		Loss Given Default
Bonds and Notes	Discounted Cash Flow	Benchmark Yield Curve
		Farm Credit Spread
Subordinated Debt	Non-binding Broker/Dealer Quote	Price for Similar Security
Commitments to		
Extend Credit	Discounted Cash Flow	Mark-to-Market Spread

## Note 14 – Related Party Transactions

In the ordinary course of business, we enter into loan transactions with customers, the officers or directors of which may also serve on our Board of Directors. Such loans are subject to special review and reporting requirements contained in the FCA regulations, are reviewed and approved only at the most senior loan committee level within the Bank and are regularly reported to the Board of Directors. Except as noted below, all related party loans are made in accordance with established policies on substantially the same terms, including interest rates and collateral requirements, as those prevailing at the time for comparable transactions with unrelated borrowers.

During 2010, we made a \$4.0 million loan to Dixie Electric Membership Corporation (DEMCO), with which Richard W. Sitman, a member of our Board of Directors, is affiliated. The loan was made to refinance a portion of DEMCO's existing long-term indebtedness. CoBank's pricing policy was unintentionally misapplied to this loan and the loan was closed with an interest rate of 3.25 percent, which is lower than rates on similar loans to unrelated borrowers. As of December 31, 2013, there was \$2.7 million outstanding on this loan, which is less than 10 percent of the Bank's total exposure to DEMCO.

Total loans outstanding to customers whose officers or directors serve on our Board of Directors amounted to \$469.5 million at December 31, 2013. During 2013, \$1.7 billion of advances on loans were made and repayments totaled \$1.7 billion. None of these loans outstanding at December 31, 2013 were delinquent, in nonaccrual or accruing restructured status or, in the opinion of management, involved more than a normal risk of collectability.

## Note 15 – Segment Financial Information

We conduct lending operations through three operating segments: Agribusiness, Strategic Relationships and Rural Infrastructure.

The following table presents condensed disaggregated information for the segments. Allocations of resources and corporate items, as well as measurement of financial performance, are made at these operating segment levels. We also allocate net interest income on investment securities to our segments. Information to reconcile the total reportable segments to the total CoBank financial statements is shown as "other." Intersegment transactions are insignificant.

We do not hold significant assets in any foreign country. Substantially all of our agricultural export finance loans are U.S. dollar-denominated and the majority of these loans are guaranteed by a U.S. government-sponsored loan guarantee program. For the three years ended December 31, 2013, 2012 and 2011, no customer made up 10 percent or more of our gross or net interest income.



## Segment Financial Information

	Strategic		Rural					
	Agribusiness	Relationships	Infrastructure	Subtotal	Other	Total	CoBank	
<b>2013 Results of Operations (\$ in Thousands):</b>								
Net Interest Income	\$ 543,013	\$ 287,407	\$ 341,055	\$ 1,171,475	\$ (8,042)	\$ 1,163,433		
Provision (Reversal) for Loan Losses	(6,000)	-	6,000	-	-	-		
Noninterest Income	92,740	1,560	40,683	134,983	(2,898)	132,085		
Operating Expenses	164,181	34,218	83,749	282,148	(2,054)	280,094		
Provision for Income Taxes	97,942	-	62,357	160,299	(1,330)	158,969		
Net Income	\$ 379,630	\$ 254,749	\$ 229,632	\$ 864,011	\$ (7,556)	\$ 856,455		
<b>Selected Financial Information at December 31, 2013 (\$ in Millions):</b>								
Loans	\$ 21,182	\$ 37,897	\$ 14,524	\$ 73,603	\$ -	\$ 73,603		
Less: Allowance for Loan Losses	(285)	-	(162)	(447)	-	(447)		
Net Loans	\$ 20,897	\$ 37,897	\$ 14,362	\$ 73,156	\$ -	\$ 73,156		
Total Assets	\$ 21,189	\$ 38,049	\$ 14,423	\$ 73,661	\$ 23,983 *	\$ 97,644		
*Other assets are comprised of:								
Investment Securities						\$ 21,688		
Other Assets						2,295		
<b>2012 Results of Operations (\$ in Thousands):</b>								
Net Interest Income	\$ 631,737	\$ 275,679	\$ 338,156	\$ 1,245,572	\$ (7,402)	\$ 1,238,170		
Provision for Loan Losses	16,550	-	53,450	70,000	-	70,000		
Noninterest Income	64,708	1,220	49,335	115,263	(1,942)	113,321		
Operating Expenses	154,521	31,261	76,766	262,548	1,335	263,883		
Provision for Income Taxes	115,488	-	49,076	164,564	(873)	163,691		
Net Income	\$ 409,886	\$ 245,638	\$ 208,199	\$ 863,723	\$ (9,806)	\$ 853,917		
<b>Selected Financial Information at December 31, 2012 (\$ in Millions):</b>								
Loans	\$ 21,394	\$ 36,707	\$ 13,879	\$ 71,980	\$ -	\$ 71,980		
Less: Allowance for Loan Losses	(277)	-	(160)	(437)	-	(437)		
Net Loans	\$ 21,117	\$ 36,707	\$ 13,719	\$ 71,543	\$ -	\$ 71,543		
Total Assets	\$ 21,447	\$ 36,849	\$ 13,776	\$ 72,072	\$ 20,406 *	\$ 92,478		
*Other assets are comprised of:								
Investment Securities						\$ 17,999		
Other Assets						2,407		
<b>2011 Results of Operations (\$ in Thousands):</b>								
Net Interest Income	\$ 681,370	\$ 95,232	\$ 300,911	\$ 1,077,513	\$ (6,486)	\$ 1,071,027		
Provision for Loan Losses	37,000	-	21,000	58,000	-	58,000		
Noninterest Income	77,178	752	42,109	120,039	(2,103)	117,936		
Operating Expenses	145,752	15,178	67,174	228,104	166	228,270		
Provision for Income Taxes	137,714	-	60,428	198,142	(2,036)	196,106		
Net Income	\$ 438,082	\$ 80,806	\$ 194,418	\$ 713,306	\$ (6,719)	\$ 706,587		
<b>Selected Financial Information at December 31, 2011 (\$ in Millions):</b>								
Loans	\$ 18,869	\$ 15,236	\$ 12,180	\$ 46,285	\$ -	\$ 46,285		
Less: Allowance for Loan Losses	(269)	-	(119)	(388)	-	(388)		
Net Loans	\$ 18,600	\$ 15,236	\$ 12,061	\$ 45,897	\$ -	\$ 45,897		
Total Assets	\$ 18,690	\$ 15,281	\$ 12,121	\$ 46,092	\$ 17,198 *	\$ 63,290		
*Other assets are comprised of:								
Investment Securities						\$ 12,995		
Other Assets						4,203		

## Note 16 – Commitments and Contingent Liabilities

Under the Farm Credit Act of 1971, as amended, we are primarily liable for the portion of outstanding Systemwide Debt Securities issued by CoBank. We are also contingently liable, as defined in statutory joint and several liability provisions, for the outstanding Systemwide Debt Securities issued by the other System banks. Total Systemwide Debt Securities of the System were \$207.5 billion at December 31, 2013.

There are several mechanisms in place affecting exposure to statutory joint and several liabilities. System banks are statutorily required to maintain eligible assets at a level at least equal in value to the total amount of debt for which such System bank is primarily liable. In addition, in the event of a default by a System bank, the Insurance Fund would be required to make timely payment of principal and interest on Systemwide Debt Securities, to the extent that net assets are available in the Insurance Fund, before the joint and several liability of the System banks would be triggered. At December 31, 2013, the aggregated assets of the Insurance Fund totaled \$3.5 billion. Finally, System banks must maintain certain financial criteria in order to participate in Systemwide debt issuances. If these criteria are not met, a troubled System bank's access to and participation in Systemwide debt issuances could be limited or denied.

We have entered into employment agreements with two of our senior officers which will provide specified payments, as well as certain enhanced retirement benefits, in the event of

a termination, except in the case of a termination for cause. These employment agreements also provide for enhanced payments in the event of a change in control, as further discussed on page 141. In addition, as part of the merger with AgBank, we assumed severance agreements that provide for payments to certain employees in the event of termination.

On at least a quarterly basis, we assess our liabilities and contingencies in connection with outstanding legal proceedings utilizing the latest information available. For those matters where it is probable that we will incur a loss, and the amount of the loss can be reasonably estimated, we record a liability in our consolidated financial statements. For other matters, where a loss is not probable or the amount of the loss is not estimable, we will not accrue a liability. While the outcome of legal proceedings is inherently uncertain, based on information currently available, advice of legal counsel and available insurance coverage, we believe that our established legal reserves are adequate as of December 31, 2013 and the liabilities arising from our legal proceedings will not have a material adverse effect on our consolidated financial position, results of operations or cash flows. However, in the event of unexpected future developments, it is possible that the ultimate resolution of these matters, if unfavorable, may be material to the Bank's consolidated financial position, results of operations or cash flows.

We have various other commitments outstanding and contingent liabilities as discussed elsewhere in these notes to consolidated financial statements, including commitments to extend credit as discussed in Note 11.

## Note 17 – Quarterly Financial Information

Unaudited quarterly results of operations for the years ended December 31, 2013, 2012 and 2011, are shown in the table below.

Quarterly Financial Information (Unaudited)						
2013	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 302,427	\$ 296,650	\$ 276,376	\$ 287,980	\$	1,163,433
Provision (Reversal) for Loan Losses	15,000	5,000	-	(20,000)		-
Noninterest Income and Expenses, Net	40,470	39,192	28,869	39,478		148,009
Provision for Income Taxes	38,156	40,422	39,441	40,950		158,969
Net Income	\$ 208,801	\$ 212,036	\$ 208,066	\$ 227,552	\$	856,455
2012	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 313,076	\$ 307,080	\$ 305,082	\$ 312,932	\$	1,238,170
Provision for Loan Losses	5,000	5,000	10,000	50,000		70,000
Noninterest Income and Expenses, Net	26,186	(9,117)	41,503	91,990		150,562
Provision for Income Taxes	51,391	58,809	35,925	17,566		163,691
Net Income	\$ 230,499	\$ 252,388	\$ 217,654	\$ 153,376	\$	853,917
2011	First	Second	Third	Fourth	Total	
Net Interest Income	\$ 301,204	\$ 276,537	\$ 251,995	\$ 241,291	\$	1,071,027
Provision for Loan Losses	12,500	25,000	12,500	8,000		58,000
Noninterest Income and Expenses, Net	19,694	25,519	27,872	37,249		110,334
Provision for Income Taxes	56,949	45,290	41,706	52,161		196,106
Net Income	\$ 212,061	\$ 180,728	\$ 169,917	\$ 143,881	\$	706,587

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### District Overview

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CoBank is chartered by the FCA to serve the Associations that provide credit and financially related services to or for the benefit of eligible borrowers/shareholders. The Associations are not authorized by the Farm Credit Act to participate in the issuance of Systemwide Debt Securities. Therefore, we are the primary funding source for our affiliated Associations. As a result of the merger with AgBank, on January 1, 2012, the number of our affiliated Associations increased from four to 29. As a result of two Association mergers, the number of our affiliated Associations was 27 on January 1, 2014. Our affiliated Associations serve customers in 23 states across the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States.

The Associations originate and service long-term real estate mortgage loans as well as short- and intermediate-term loans for agricultural purposes. The Associations may also purchase eligible loan participations from System entities and other lending institutions. Additionally, the Associations serve as an intermediary in offering multi-peril crop insurance and credit life insurance, and providing additional financial services to borrowers.

The Farm Credit Act as well as FCA regulations require us to exercise limited supervision over the operating activities of our affiliated Associations. These Associations and CoBank operate under a debtor-creditor relationship evidenced by a General Financing Agreement (GFA) entered into separately with each Association. The GFA sets forth the business relationship between us and each Association and also references certain requirements contained in the Farm Credit Act and FCA regulations. The Associations' respective boards of directors are expected to establish and monitor the necessary policies and procedures to comply with all FCA regulations. In all other respects, the lending relationship with the Associations is substantially similar to that with our other borrowers.

We make loans to the Associations, which, in turn, make loans to their eligible borrowers. We have senior secured interests in substantially all of the Associations' assets, which

extend to the underlying collateral of the Associations' loans to their customers. Total loans outstanding to our affiliated Associations was \$34.0 billion at December 31, 2013. During 2013, \$91.3 billion of advances on loans were made to our affiliated Associations and repayments totaled \$90.3 billion.

We have no direct access to Association capital. Our bylaws permit our Board of Directors to set the target equity level for Association investment in the Bank within a range of 4 to 6 percent of the one-year historical average of Association borrowings. In 2013, the required investment level was 4 percent. There are no capital sharing agreements between us and our affiliated Associations.

Our affiliated Associations are considered customers and thus operate independently and maintain an arms-length relationship with us, except to the limited extent that the Farm Credit Act requires us, as the funding bank, to monitor and approve certain activities of these Associations. Accordingly, the financial information of affiliated Associations is not included in our condensed consolidated financial statements. However, because of the interdependent manner in which CoBank and our affiliated Associations operate, we believe that presenting combined Bank and Association financial information is meaningful for purposes of additional analysis.

The Financial Highlights, Management's Discussion and Analysis and the Condensed Combined Income Statements and Balance Sheets included in the supplemental information on pages 104 to 114 present unaudited combined financial information and related analysis of CoBank and its affiliated Associations, which are collectively referred to as the "District." As part of the combining process, all significant transactions between CoBank and the Associations, including loans made by the Bank to the affiliated Associations and the interest income/interest expense related thereto, and investments of the affiliated Associations in the Bank and the earnings related thereto, have been eliminated.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Financial Highlights<sup>(1)</sup>

(\$ in Thousands)

As of December 31,	2013	2012	2011
Total Loans	\$ 81,602,878	\$ 79,076,558	\$ 48,336,198
Less: Allowance for Loan Losses	739,745	759,626	588,879
Net Loans	80,863,133	78,316,932	47,747,319
Total Assets	106,354,560	100,374,523	65,376,682
Total Shareholders' Equity	13,973,480	12,942,545	6,790,284

Year Ended December 31,	2013	2012	2011
Net Interest Income	\$ 2,337,151	\$ 2,362,465	\$ 1,495,994
(Loan Loss Reversal)/Provision for Loan Losses	(23,385)	147,167	122,280
Net Fee Income	147,176	147,384	129,795
Net Income	1,576,970	1,500,678	922,108
Net Interest Margin	2.33 %	2.48 %	2.29 %
Return on Average Assets	1.54	1.53	1.35
Return on Average Total Shareholders' Equity	11.63	11.89	14.06
Average Loans	\$ 79,529,070	\$ 77,210,644	\$ 52,178,631
Average Earning Assets	100,152,982	95,201,132	65,253,937
Average Assets	102,213,961	98,045,339	68,208,556

<sup>(1)</sup> On January 1, 2012, AgBank was merged into CoBank, FCB and CoBank became the funding bank for the Farm Credit Associations previously affiliated with AgBank. The effects of the merger are included in the District's condensed combined statement of income, balance sheet, average balances and related metrics beginning in 2012.



## Management's Discussion and Analysis of District Results of Operations and Financial Condition

The following discussion summarizes the combined results of operations and financial position of the CoBank District (District) as of and for the year ended December 31, 2013. Comparisons with prior-year periods are included. Affiliated Agricultural Credit Associations and Federal Land Credit Associations are together referred to as "affiliated Associations."

### Merger with AgBank

On January 1, 2012, AgBank was merged into CoBank, and CoBank became the funding bank for the Associations formerly affiliated with AgBank. Beginning in 2012, the District's statement of income, balance sheet, average balances and related metrics include the effects of the merger with AgBank. Prior year results have not been restated to reflect the impact of the merger.

Upon the closing of the merger, the District's total loans, investment securities, other assets, liabilities and shareholders' equity increased by \$24.9 billion, \$5.2 billion, \$0.9 billion, \$25.8 billion, and \$5.2 billion, respectively. These amounts include adjustments to fair value, as required by accounting standards for business combinations.

Also on January 1, 2012, Mountain Plains Farm Credit Services merged with American AgCredit, both of which are former AgBank affiliated Associations.

### Combined Results of Operations

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District net income increased by \$76.3 million in 2013 to \$1,577 million as compared to \$1,501 million in 2012. The increase is largely due to a loan loss reversal of \$23.4 million as compared to a provision for loan losses of \$147.2 million in 2012.

Net interest income decreased 1 percent to \$2,337 million in 2013 as compared to \$2,362 million in 2012. Average loan volume in the District grew 3 percent to \$79.5 billion in 2013 compared to \$77.2 billion for 2012. The increase in average loan volume primarily reflected growth in real estate mortgage loans and rural energy lending, partly offset by a decline in

agribusiness loan volume. The impact of growth in average loan volume on net interest income was mostly offset by the continued low interest rate environment, which resulted in lower returns on invested capital throughout the District and on CoBank's balance sheet positioning and investment securities. To a lesser extent, lower net interest income also resulted from lower spreads on the District's lending portfolios due to increased competition in the banking industry for the business of our customers, a shift in the mix of loans within the loan portfolio and the impact of improved borrower credit quality on loan pricing. These factors led to a decrease in the District's overall net interest margin to 2.33 percent for 2013 from 2.48 percent for 2012.

The District recorded a net loan loss reversal of \$23.4 million in 2013, compared to a provision for loan losses of \$147.2 million for 2012. CoBank did not record a provision for loan losses in 2013 compared to a \$70.0 million provision for loan losses in 2012, as described on page 29. The Associations recorded a net combined loan loss reversal of \$23.4 million in 2013, compared to a provision for loan losses of \$77.2 million in the prior year. The 2013 net loan loss reversal at the Associations resulted from improved credit quality in addition to reductions in nonaccrual loans and related specific reserves.

Noninterest income decreased to \$246.0 million in 2013 from \$265.5 million in 2012. The 2012 period included refunds of \$86.2 million from the Insurance Corporation related to the Insurance Fund. CoBank's refund in the 2012 period totaled \$44.6 million of this amount. Losses on early extinguishments of debt (net of prepayment fees and inclusive of the 2012 loss on the tender offer for subordinated debt) decreased to \$17.6 million in 2013 compared to \$65.7 million in 2012. CoBank recorded \$2.5 million of other-than-temporary impairment losses on investment securities in 2013 compared to \$17.0 million in 2012.

## Supplemental District Financial Information

### CoBank, ACB and Affiliated Associations

Total District operating expenses increased 8 percent to \$859.5 million for 2013 from \$799.3 million for 2012. The change included an increase in Insurance Fund premium expense of \$29.9 million, driven by an increase in premium rates and, to a lesser extent, growth in average loan volume. Insurance Fund premium rates were 10 basis points of adjusted insured debt obligations during 2013 compared to five basis points throughout 2012. Employee compensation expense increased to \$515.7 million for 2013 from \$496.9 million for 2012. The prior-year period included a \$14.1 million one-time expense associated with the transfer of defined benefit pension plan assets and obligations related to the Bank's merger with AgBank. Excluding this item, employee compensation increased by \$32.9 million which was

primarily due to the Associations' increased staffing, as well as annual salary adjustments and increased healthcare costs at the Associations. Information services expense increased 11 percent to \$55.9 million in 2013 from \$50.4 million for 2012, primarily driven by increases at the Bank as a result of several initiatives, including integration efforts related to the merger with AgBank, security upgrades and enhancements to customer service and risk management platforms.

Income tax expense decreased to \$170.0 million for 2013 from \$180.9 million for 2012. The income tax expense at the District predominantly relates to CoBank, as a substantial majority of the business activities at Associations are exempt from federal income tax. The change in income tax expense at CoBank is explained on page 31.

## Loan Portfolio

The following table presents the District's outstanding loans classified in accordance with the FCA's loan types.

(\$ in Thousands)

### District Loans by Loan Type

December 31,	2013	2012	2011
Real Estate Mortgage	\$ 24,459,913	\$ 23,403,897	\$ 6,451,948
Non-affiliated Associations	3,838,682	3,590,169	4,047,861
Production and Intermediate-term	13,936,988	12,976,059	6,746,375
Agribusiness:			
Loans to Cooperatives	10,002,849	11,197,967	10,095,904
Processing and Marketing Operations	4,369,018	3,786,031	1,503,068
Farm Related Businesses	1,436,470	1,489,009	732,585
Communications	2,754,218	2,854,413	2,640,289
Energy	11,586,577	10,740,816	8,695,046
Water/Wastewater	1,131,043	1,119,923	986,082
Agricultural Export Finance	4,518,185	4,660,523	3,757,667
Rural Residential Real Estate	871,202	870,060	784,887
Lease Receivables	2,594,696	2,308,251	1,873,321
Other	103,037	79,440	21,165
Total	\$ 81,602,878	\$ 79,076,558	\$ 48,336,198

District loan volume at December 31, 2013 was \$81.6 billion compared to \$79.1 billion at December 31, 2012. The increase was driven largely by an increase in real estate mortgages and production and intermediate-term loans at Associations and in loans to CoBank's rural energy customers.

This was partially offset by lower agribusiness loans to cooperatives included within CoBank's retail portfolio due to lower levels of seasonal lending.

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Portfolio Diversification

The following tables present the District's combined loan portfolio by primary business/commodity and geographic distribution, as a percent of total loans for the periods presented.

Distribution by Primary Business / Commodity			
	2013	2012	2011
Fruits, Nuts and Vegetables	14 %	12 %	9 %
Farm Supply, Grain and Marketing	12	14	18
Dairy	10	10	8
Electric Distribution	7	6	11
Cattle	6	6	2
Forest Products	6	4	5
International Lending	5	6	8
Field Crops Except Grains	5	5	3
Other Farm Credit Entities	5	4	8
Generation and Transmission	4	4	5
Livestock, Fish and Poultry	4	4	4
Farm Related Business Services	3	3	3
Leasing	3	3	4
Rural Home	3	2	2
Local Telephone Exchange Carriers	1	2	3
Nursery, Greenhouse	1	2	2
Other	11	13	5
Total	100 %	100 %	100 %

Geographic Distribution			
	2013	2012	2011
California	21 %	21 %	6 %
Texas	7	7	10
Kansas	6	6	2
Washington	5	5	7
New York	4	4	6
Oregon	4	4	5
Colorado	4	4	2
Idaho	3	3	4
Oklahoma	3	3	1
Illinois	2	2	3
Iowa	2	2	4
Minnesota	2	2	3
Other (less than 2 percent each for the current year)	32	31	39
Total States	95 %	94 %	92 %
Latin America	2	2	3
Europe, Mideast and Africa	1	2	3
Other International	2	2	2
Total International	5 %	6 %	8 %
Total	100 %	100 %	100 %

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Loan Quality

The following table presents loans and related accrued interest receivable, classified by management at the various District entities pursuant to the FCA's Uniform Loan Classification System, as a percent of total loans and related accrued interest.

District Loan Quality			
December 31,	2013	2012	2011
Acceptable	95.80 %	94.86 %	93.82 %
Special Mention	2.08	2.29	3.23
Substandard	2.05	2.71	2.81
Doubtful	0.07	0.14	0.14
Loss	-	-	-
Total	100.00 %	100.00 %	100.00 %

Loan quality within the District is very favorable, with nearly 96 percent of all loans and related accrued interest in the highest category of credit quality. Credit risk in the District's loan portfolio is spread broadly among customers, industries and geographic territory. The District serves a diversified spectrum of borrowers up and down the agricultural value chain. Association retail loans in the District loan portfolio are concentrated in the Northwest, West, Southwest, Rocky Mountains, Mid-Plains, and Northeast regions of the United States. CoBank's retail loan portfolio extends across the United States, with moderate levels of concentration in the Midwest region of the country and in the farm supply and grain marketing, electric distribution, and generation and transmission sectors.

As shown in the table on page 107, at December 31, 2013, approximately 21 percent of the District's combined loan portfolio is in California. A significant portion of California is currently experiencing moderate to exceptional drought conditions, which may lead to increased prices and decreased supplies for agricultural products produced in affected areas, including livestock, dairy products, fruits, nuts and vegetables. Prolonged drought conditions could negatively impact the credit quality of loans related to producers and processors of these products.

Nonperforming assets (which consist of nonaccrual loans, accruing restructured loans, accruing loans 90 days or more past due and other property owned) totaled \$649.8 million as of December 31, 2013 compared to \$857.8 million at December 31, 2012. Nonperforming assets represented 0.80 percent of total District loan volume and other property owned at December 31, 2013 compared to 1.08 percent at December 31, 2012. Nonaccrual loan volume, the largest component of nonperforming assets, was 0.66 percent of total loans at December 31, 2013 compared to 0.92 percent at December 31, 2012. The decrease in the level of nonaccrual loans was primarily due to reductions at Associations related

to repayments on dairy loans and charge-offs on nursery and dairy loans. Other property owned increased modestly to \$48.3 million at December 31, 2013 from \$47.8 million at December 31, 2012.

The following table displays the District's nonperforming assets for the periods presented.

(\$ in Thousands)

Nonperforming Assets			
December 31,	2013	2012	2011
<b>Nonaccrual Loans:</b>			
Real Estate Mortgage	\$ 226,103	\$ 350,187	\$ 128,719
Production and Intermediate-term	168,634	224,217	183,141
Agribusiness	26,625	36,119	41,154
Communications	78,395	79,493	54,512
Energy	19,700	22,141	201
Water/Waste Water	-	200	-
Rural Residential Real Estate	10,705	12,360	15,287
Lease Receivables	5,421	5,116	9,549
Total Nonaccrual Loans	535,583	729,833	432,563
<b>Accruing Restructured Loans:</b>			
Real Estate Mortgage	24,533	35,098	18,481
Production and Intermediate-term	25,832	26,091	18,639
Agribusiness	3,213	3,709	2,123
Energy	2,707	3,145	3,228
Rural Residential Real Estate	1,200	316	409
Total Accruing Restructured Loans	57,485	68,359	42,880
<b>Accruing Loans 90 Days or More Past Due:</b>			
Real Estate Mortgage	4,560	4,474	2,554
Production and Intermediate-term	3,038	6,750	10,783
Agribusiness	512	-	188
Rural Residential Real Estate	190	77	1,056
Lease Receivables	193	479	114
Total Accruing Loans 90 Days or More Past Due	8,493	11,780	14,695
Total Nonperforming Loans	601,561	809,972	490,138
Other Property Owned	48,275	47,826	10,031
Total Nonperforming Assets	\$ 649,836	\$ 857,798	\$ 500,169
<b>Nonaccrual Loans as a</b>			
Percentage of Total Loans	0.66 %	0.92 %	0.89 %
<b>Nonperforming Assets as a</b>			
Percentage of Total Loans and			
Other Property Owned	0.80	1.08	1.03
<b>Nonperforming Assets as a</b>			
Percentage of Capital	4.65	6.63	7.37



# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

The following tables present an aging of past due loans and related accrued interest in the District for the periods presented.

(\$ in Thousands)

### Aging of Past Due Loans

December 31, 2013							
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing	
Real Estate Mortgage	\$ 62,204	\$ 47,747	\$ 109,951	\$ 24,576,776	\$ 24,686,727	\$ 4,560	
Production and							
Intermediate-term	45,784	66,058	111,842	13,907,985	14,019,827	3,038	
Agribusiness	5,370	20,689	26,059	15,836,453	15,862,512	512	
Communications	-	54,923	54,923	2,706,053	2,760,976	-	
Energy	-	-	-	11,633,602	11,633,602	-	
Water/Waste Water	-	-	-	1,137,639	1,137,639	-	
Agricultural Export							
Finance	-	-	-	4,528,308	4,528,308	-	
Rural Residential Real							
Estate	8,098	2,736	10,834	864,177	875,011	190	
Lease Receivables	6,257	1,418	7,675	2,587,565	2,595,240	193	
Non-affiliated Associations	-	-	-	3,840,908	3,840,908	-	
Other	-	-	-	103,247	103,247	-	
<b>Total</b>	<b>\$ 127,713</b>	<b>\$ 193,571</b>	<b>\$ 321,284</b>	<b>\$ 81,722,713</b>	<b>\$ 82,043,997</b>	<b>\$ 8,493</b>	

(\$ in Thousands)

### Aging of Past Due Loans

December 31, 2012							
	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing	
Real Estate Mortgage	\$ 75,130	\$ 127,289	\$ 202,419	\$ 23,421,193	\$ 23,623,612	\$ 4,474	
Production and							
Intermediate-term	51,905	64,382	116,287	12,941,245	13,057,532	6,750	
Agribusiness	12,870	7,562	20,432	16,512,149	16,532,581	-	
Communications	-	5,296	5,296	2,855,692	2,860,988	-	
Energy	-	71	71	10,784,164	10,784,235	-	
Water/Waste Water	-	-	-	1,126,483	1,126,483	-	
Agricultural Export							
Finance	-	-	-	4,672,186	4,672,186	-	
Rural Residential Real							
Estate	5,089	6,961	12,050	862,087	874,137	77	
Lease Receivables	8,854	1,400	10,254	2,298,462	2,308,716	479	
Non-affiliated Associations	-	-	-	3,592,333	3,592,333	-	
Other	-	-	-	79,580	79,580	-	
<b>Total</b>	<b>\$ 153,848</b>	<b>\$ 212,961</b>	<b>\$ 366,809</b>	<b>\$ 79,145,574</b>	<b>\$ 79,512,383</b>	<b>\$ 11,780</b>	

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

(\$ in Thousands)

### Aging of Past Due Loans

December 31, 2011

	30-90 Days Past Due	90 Days or More Past Due	Total Past Due	Not Past Due or Less Than 30 Days Past Due	Total Loans and Accrued Interest	Recorded Investment >90 Days and Accruing
Real Estate Mortgage	\$ 34,802	\$ 49,821	\$ 84,623	\$ 6,425,403	\$ 6,510,026	\$ 2,554
Production and Intermediate-term	36,186	57,901	94,087	6,688,311	6,782,398	10,783
Agribusiness	6,264	7,886	14,150	12,362,121	12,376,271	188
Communications	-	-	-	2,648,194	2,648,194	-
Energy	-	-	-	8,740,596	8,740,596	-
Water/Waste Water	-	-	-	992,051	992,051	-
Agricultural Export Finance	-	-	-	3,766,204	3,766,204	-
Rural Residential Real Estate	6,363	7,710	14,073	775,341	789,414	1,056
Lease Receivables	56,100	4,916	61,016	1,812,304	1,873,320	114
Non-affiliated Associations	-	-	-	4,050,481	4,050,481	-
Other	-	-	-	21,223	21,223	-
<b>Total</b>	<b>\$ 139,715</b>	<b>\$ 128,234</b>	<b>\$ 267,949</b>	<b>\$ 48,282,229</b>	<b>\$ 48,550,178</b>	<b>\$ 14,695</b>

District entities maintain an allowance for loan losses at a level consistent with the probable losses identified by management of each institution, considering such factors as current agricultural and economic conditions, loan loss experience, portfolio quality, and loan portfolio composition and concentrations. CoBank and certain Associations also maintain a reserve for unfunded commitments, which totaled \$184.1 million at December 31, 2013.

Although aggregated in the District's combined financial statements, the allowance for loan losses for each District entity is particular to that institution and is not available to absorb losses realized by other District entities. The allowance for loan losses at December 31, 2013 totaled \$739.7 million compared to \$759.6 million at December 31, 2012.

The following presents detailed changes in the allowance for loan losses in the District for the periods presented.

(\$ in Thousands)

### Changes in Allowance for Loan Losses

	Balance at December 31, 2012	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at December 31, 2013
Real Estate Mortgage	\$ 89,743	\$ (9,101)	\$ 3,121	\$ 23,144	\$ (3,222)	\$ 103,685
Production and Intermediate-term	201,398	(28,725)	41,462	(30,818)	(1,016)	182,301
Agribusiness	255,027	(2,024)	9,477	(25,426)	(3,992)	233,062
Communications	66,265	(26)	1,061	(9)	(2,361)	64,930
Energy	93,403	(537)	26	6,571	(2,109)	97,354
Water/Waste Water	9,853	-	-	(214)	(214)	9,425
Agricultural Export Finance	6,238	-	1,213	(9)	(3)	7,439
Rural Residential Real Estate	5,519	(657)	16	1,793	-	6,671
Lease Receivables	32,158	(428)	1,543	1,475	-	34,748
Other	22	-	-	108	-	130
<b>Total</b>	<b>\$ 759,626</b>	<b>\$ (41,498)</b>	<b>\$ 57,919</b>	<b>\$ (23,385)</b>	<b>\$ (12,917)</b>	<b>\$ 739,745</b>

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

(\$ in Thousands)

### Changes in Allowance for Loan Losses

	Balance at December 31, 2011	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Merger Impact	Balance at December 31, 2012
Real Estate							
Mortgage	\$ 52,628	\$ (14,148)	\$ 8,066	\$ 4,183	\$ 294	\$ 38,720	\$ 89,743
Production and							
Intermediate-term	143,613	(72,081)	8,887	72,162	1,173	47,644	201,398
Agribusiness	232,396	(15,319)	1,921	14,478	6,575	14,976	255,027
Communications	46,498	(1,556)	2,343	17,800	715	465	66,265
Energy	68,204	-	364	35,491	(12,895)	2,239	93,403
Water/Waste Water	7,518	-	45	3,664	(1,378)	4	9,853
Agricultural Export							
Finance	12,073	-	412	(7,964)	1,701	16	6,238
Rural Residential							
Real Estate	4,123	(711)	45	2,007	-	55	5,519
Lease Receivables	21,761	(3,062)	7,340	5,217	-	902	32,158
Other	65	(177)	5	129	-	-	22
<b>Total</b>	<b>\$ 588,879</b>	<b>\$ (107,054)</b>	<b>\$ 29,428</b>	<b>\$ 147,167</b>	<b>\$ (3,815)</b>	<b>\$ 105,021</b>	<b>\$ 759,626</b>

(\$ in Thousands)

### Changes in Allowance for Loan Losses

	Balance at December 31, 2010	Charge-offs	Recoveries	Provision for Loan Losses/ (Loan Loss Reversal)	Transfers from (to) Reserve for Unfunded Commitments	Balance at December 31, 2011
Real Estate Mortgage	\$ 42,077	\$ (3,609)	\$ 9	\$ 17,215	\$ (3,064)	\$ 52,628
Production and Intermediate-term	129,381	(30,999)	5,158	50,302	(10,229)	143,613
Agribusiness	253,776	(7,441)	2,736	22,506	(39,181)	232,396
Communications	60,824	(6,333)	185	(7,805)	(373)	46,498
Energy	51,292	(6,623)	235	28,625	(5,325)	68,204
Water/Waste Water	5,616	(1,265)	-	3,774	(607)	7,518
Agricultural Export Finance	10,732	(127)	3,147	-	(1,679)	12,073
Rural Residential Real Estate	2,878	(2,245)	-	3,631	(141)	4,123
Lease Receivables	19,852	(2,446)	355	4,000	-	21,761
Other	37	-	-	33	(5)	65
<b>Total</b>	<b>\$ 576,465</b>	<b>\$ (61,088)</b>	<b>\$ 11,825</b>	<b>\$ 122,281</b>	<b>\$ (60,604)</b>	<b>\$ 588,879</b>

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### District Capital Resources

Combined District shareholders' equity at December 31, 2013 totaled \$14.0 billion, a net increase of \$1.1 billion as compared to \$12.9 billion at December 31, 2012. The increase primarily resulted from District net income of \$1,577 million and net issuance of preferred stock by Associations of \$93.7 million, somewhat offset by accrued patronage of \$508.8 million, additional other comprehensive loss of \$95.5 million, and preferred stock dividends of \$68.1 million.

The increase in the District's total accumulated other comprehensive loss in 2013 primarily relates to unrealized losses on CoBank's investment securities, as described on page 52. The increase was partially offset by the change in the net pension adjustment driven by improved asset values in the various pension plans within the District.

The components of the District's accumulated other comprehensive income (loss) are detailed in the following table.

(\$ in Thousands)

Accumulated Other Comprehensive Income (Loss)			
December 31,	2013	2012	2011
Unrealized Gains on Investment			
Securities	\$ 1,305	\$ 213,983	\$ 158,662
Net Pension Adjustment	(195,429)	(303,628)	(115,156)
Unrealized Losses on Interest Rate			
Swaps and Other Financial Instruments	(2,246)	(11,261)	(5,960)
Accumulated Other			
Comprehensive Income (Loss)	\$ (196,370)	\$ (100,906)	\$ 37,546

The following table presents regulatory capital ratios for CoBank and the range of ratios at the affiliated Associations.

#### District Capital Ratios

	December 31, 2013			December 31, 2012			December 31, 2011		
	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio	Permanent Capital Ratio	Total Surplus Ratio	Core Surplus Ratio
CoBank	16.72%	15.74%	10.82%	16.14%	15.22%	10.06%	16.37%	16.01%	10.02%
Associations	13.59 - 35.69%	13.41 - 35.25%	13.41 - 30.02%	13.43 - 35.45%	13.27 - 35.02%	13.07 - 29.78%	13.81 - 20.59%	13.65 - 20.26%	13.65 - 20.26%
Regulatory Minimum	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%	7.00%	7.00%	3.50%

As depicted in the table above, at December 31, 2013, CoBank and all affiliated Associations exceeded the FCA's regulatory minimum capital ratios.

Although aggregated in the District's condensed financial statements, capital for each District entity is particular to that institution. In addition, the provisions of joint and several liability for Systemwide Debt Securities are applicable only to System banks and do not include Associations.

#### Association Mergers

Effective January 1, 2014, two Association mergers occurred in the CoBank District. The Federal Land Bank Association of Kingsburg, FLCA and Northern California Farm Credit, ACA merged to form Golden State Farm Credit, ACA. Additionally, Farm Credit of Maine, ACA merged into Farm Credit East, ACA. As a result of these two mergers, the total number of our affiliated Associations was 27 at January 1, 2014.



# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Condensed Combined Statements of Income

(\$ in Thousands)

Year Ended December 31,	2013	2012	2011
<b>Interest Income</b>			
Loans	\$ 2,806,758	\$ 2,814,611	\$ 1,937,425
Investment Securities	323,746	336,590	276,350
Total Interest Income	3,130,504	3,151,201	2,213,775
<b>Interest Expense</b>	793,353	788,736	717,781
Net Interest Income	2,337,151	2,362,465	1,495,994
(Loan Loss Reversal)/Provision for Loan Losses	(23,385)	147,167	122,280
Net Interest Income After Provision for Loan Losses	2,360,536	2,215,298	1,373,714
<b>Noninterest Income/ Expense</b>			
Net Fee Income	147,176	147,384	129,795
Prepayment Income	79,258	49,510	24,683
Losses on Early Extinguishment of Debt	(96,839)	(86,718)	(50,421)
Loss on Tender Offer for Subordinated Debt	-	(28,460)	-
Total Other-Than-Temporary Impairment Losses	(1,852)	(972)	(8,756)
Portion Recognized in Other Comprehensive Loss	(648)	(16,028)	(1,244)
Net Other-Than-Temporary Impairment Losses Included in Earnings	(2,500)	(17,000)	(10,000)
Other, Net	118,861	200,827	70,909
Total Noninterest Income	245,956	265,543	164,966
<b>Operating Expenses</b>			
Employee Compensation	515,743	496,898	226,627
General and Administrative	63,282	72,248	46,681
Information Technology	55,858	50,412	25,829
Insurance Fund Premium	67,493	33,397	26,699
Farm Credit System Related	24,577	23,253	10,697
Occupancy and Equipment	42,308	41,615	21,326
Purchased Services	44,069	38,583	35,981
Other	46,156	42,867	19,399
Total Operating Expenses	859,486	799,273	413,239
Income Before Income Taxes	1,747,006	1,681,568	1,125,441
Provision for Income Taxes	170,036	180,890	203,333
Net Income	\$ 1,576,970	\$ 1,500,678	\$ 922,108

# Supplemental District Financial Information

## CoBank, ACB and Affiliated Associations

### Condensed Combined Balance Sheets

(\$ in Thousands)

As of December 31,	2013	2012	2011
<b>Assets</b>			
Total Loans	\$ 81,602,878	\$ 79,076,558	\$ 48,336,198
Less: Allowance for Loan Losses	739,745	759,626	588,879
Net Loans	80,863,133	78,316,932	47,747,319
Cash	1,500,552	1,538,820	2,849,697
Investment Securities	21,937,745	18,287,845	12,995,458
Interest Rate Swaps and Other Financial Instruments	672,955	1,005,044	1,047,897
Accrued Interest Receivable and Other Assets	1,380,175	1,225,882	736,311
Total Assets	\$ 106,354,560	\$ 100,374,523	\$ 65,376,682
<b>Liabilities</b>			
Bonds and Notes	\$ 89,469,626	\$ 84,490,027	\$ 56,168,289
Subordinated Debt	904,685	904,685	1,000,000
Interest Rate Swaps and Other Financial Instruments	120,271	157,008	136,062
Reserve for Unfunded Commitments	184,137	171,246	167,404
Accrued Interest Payable and Other Liabilities	1,702,361	1,709,012	1,114,643
Total Liabilities	92,381,080	87,431,978	58,586,398
<b>Shareholders' Equity</b>			
Preferred Stock Issued by Bank	961,750	961,750	700,000
Preferred Stock Issued by Associations	432,022	338,371	-
Common Stock	1,278,417	1,240,695	1,201,116
Paid In Capital	654,933	654,933	164,369
Unallocated Retained Earnings	10,842,729	9,847,702	4,687,253
Accumulated Other Comprehensive Income (Loss)	(196,371)	(100,906)	37,546
Total Shareholders' Equity	13,973,480	12,942,545	6,790,284
Total Liabilities and Shareholders' Equity	\$ 106,354,560	\$ 100,374,523	\$ 65,376,682

# Report of Management

## CoBank, ACB

March 3, 2014


To our Shareholders:

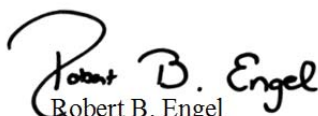
The consolidated financial statements of CoBank, ACB (CoBank) are prepared by management, which is responsible for their integrity and objectivity, including amounts that must necessarily be based on judgments and estimates. The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as appropriate in the circumstances. The consolidated financial statements, in the opinion of management, fairly present, in all material respects, the consolidated financial position of CoBank. Other consolidated financial information included in the Annual Report to Shareholders is consistent with that in the financial statements.

To meet its responsibility for reliable consolidated financial information, management depends on accounting and internal control systems which have been designed to provide reasonable, but not absolute, assurance that assets are safeguarded and transactions are properly authorized and recorded. The systems have been designed to recognize that the cost must be related to the benefits derived. To monitor compliance, CoBank's internal audit staff performs audits of the accounting records, reviews accounting systems and internal controls, and recommends improvements as deemed appropriate. CoBank's 2013, 2012 and 2011 consolidated financial statements have been audited by PricewaterhouseCoopers LLP, independent auditors. In addition, our independent auditors have audited our internal control over financial reporting as of December 31, 2013, 2012 and 2011. CoBank is also examined by the Farm Credit Administration.

The chief executive officer, as delegated by the Board of Directors, has overall responsibility for CoBank's system of internal controls and financial reporting, subject to the review of the audit committee of the Board of Directors. The chief executive officer reports periodically on those matters to the audit committee. The audit committee consults regularly with management and meets periodically with the independent auditors and internal auditors to review the scope and results of their work. The audit committee reports regularly to the Board of Directors. Both the independent auditors and the internal auditors have direct access to the audit committee, which is composed solely of directors who are not officers or employees of CoBank.

The undersigned certify that this CoBank Annual Report to Shareholders has been reviewed by the undersigned and has been prepared in accordance with all applicable statutory or regulatory requirements and that the information contained herein is true, accurate and complete to the best of their knowledge.

  
Everett M. Dobrinski  
Chairman of the Board

  
Robert B. Engel  
Chief Executive Officer

  
David P. Burlage  
Chief Financial Officer

# Report of Independent Auditors

## CoBank, ACB

To the Board of Directors and Shareholders of CoBank, ACB:

We have audited the accompanying consolidated financial statements of CoBank, ACB and its subsidiaries (CoBank), which comprise the consolidated balance sheets as of December 31, 2013, 2012 and 2011 and the related consolidated statements of income, comprehensive income, cash flows, and changes in shareholders' equity for the years then ended. We also have audited CoBank's internal control over financial reporting as of December 31, 2013 based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

### Management's Responsibility

The Company's management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, for maintaining internal control over financial reporting including the design, implementation, and maintenance of controls relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to error or fraud, and for its assertion about the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing on page 118 of the CoBank 2013 Annual Report to Shareholders.

### Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our integrated audits. We conducted our integrated audits in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States) and in accordance with the auditing and attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of internal control over financial reporting involves obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our opinions.



# Report of Independent Auditors

## CoBank, ACB

### Definition and Inherent Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (iii) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

### Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of CoBank at December 31, 2013, 2012 and 2011, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).



Denver, Colorado  
March 3, 2014

# Management's Report on Internal Control Over Financial Reporting

## CoBank, ACB

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. CoBank's internal control over financial reporting is a process designed under the supervision of our chief executive officer and our chief financial officer to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Bank's financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. As of the end of the Bank's 2013 fiscal year, management conducted an assessment of the effectiveness of the Bank's internal control over financial reporting based on criteria established in *Internal Control – Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this assessment, our management concluded that the Bank's internal control over financial reporting is effective as of December 31, 2013.

Our internal control over financial reporting includes policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect transactions and dispositions of assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. generally accepted accounting principles, and that receipts and expenditures are being made only in accordance with authorizations of management and the directors of CoBank; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Bank's assets that could have a material effect on our financial statements.

The effectiveness of the Bank's internal control over financial reporting as of December 31, 2013 has been audited by PricewaterhouseCoopers LLP, independent auditors, as stated in their report appearing on pages 116 and 117, which expresses an unqualified opinion on the effectiveness of the Bank's internal control over financial reporting as of December 31, 2013. There have been no changes in the Bank's internal control over financial reporting that occurred during our most recent fiscal quarter (i.e., the fourth quarter of 2013) that have materially affected, or are reasonably likely to materially affect, the Bank's internal control over financial reporting.

# Controls and Procedures

## CoBank, ACB

We maintain a system of disclosure controls and procedures. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information disclosed by us in our quarterly and annual reports is accumulated and communicated to our management, including our principal executive officer and our principal financial officer, as appropriate, to allow timely decisions to be made regarding disclosure. The chief executive officer and the chief financial officer have evaluated our disclosure controls and procedures as of the end of the period covered by this annual report and have concluded that our disclosure controls and procedures are effective as of that date.

We also maintain a system of internal controls. The term “internal controls,” as defined by the American Institute of Certified Public Accountants’ Codification of Statement on Auditing Standards, AU-C Section 315, means a process effected by those charged with governance, management and other personnel that is designed to provide reasonable assurance about the achievement of the entity’s objectives with regard to the reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations. We continually assess the adequacy of our internal controls over financial reporting and enhance our controls in response to internal control assessments and internal and external audit and regulatory recommendations. There have been no significant changes in our internal controls or in other factors that could significantly affect such controls subsequent to the date we carried out our evaluations. In accordance with our internal control procedures, these financial statements were prepared under the oversight of the audit committee of our Board of Directors.

# Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

## CoBank, ACB

In accordance with Farm Credit Administration (FCA) regulations, CoBank has prepared this Annual Report to Shareholders for the year ended December 31, 2013, in accordance with all applicable statutory or regulatory requirements.

	Section	Location
<b>Description of Business</b>		
Territory served, eligible borrowers, types of lending activities engaged in, financial services offered, and related Farm Credit organizations.	Notes to Financial Statements..... Supplemental District Financial Information	Note 1 Page 103
Significant developments within the last 5 years that had or could have a material impact on earnings or interest rates to borrowers, acquisitions or dispositions of material assets, material changes in the manner of conducting business, seasonal characteristics, concentration of assets, and dependence, if any, upon a single customer or a few customers.	Notes to Financial Statements.....	Note 1 Note 2 Note 3 Note 4 Note 5 Note 6 Note 7 Note 8 Note 14 Note 15 Note 16 Note 17
	Management's Discussion and Analysis .....	Pages 25 to 58
<b>Description of Property</b>		
Location of Property CoBank leases its national office building which is located in Greenwood Village, Colorado. CoBank also leases various facilities which are described on the inside back cover of this Annual Report to Shareholders. CoBank leases banking center offices in Ames, IA; Atlanta, GA; Austin, TX; Enfield, CT; Fargo, ND; Louisville, KY; Lubbock, TX; Minneapolis, MN; Omaha, NE; Sacramento, CA; Spokane, WA; Sterling, CO; and St. Louis, MO. CoBank leases office space in Washington D.C. and Singapore. CoBank owns its Wichita Banking Center facilities in Wichita, KS. CoBank leases the majority of this building to various unrelated tenants. Farm Credit Leasing Services Corporation leases its headquarters office in Minneapolis, MN, as well as outside sales offices in Atlanta, GA; Enfield, CT; Louisville, KY; Lubbock, TX; Celina, OH; Omaha, NE; Sacramento, CA; St. Louis, MO; and Stockton, CA, some of which are located in CoBank banking centers.	Office Locations.....	Inside Back Cover
CoBank has a national charter and, as a result, serves customers across rural America. Travel to customer locations may be difficult due to the rural nature of many of our customers' operations. In order to provide the appropriate level of customer contact and to optimize the efficiency of management travel, CoBank utilizes a variety of transportation to serve its customers, including aircraft (both commercial and fractional interest). The use of fractional interest aircraft is strictly limited to business use.		
<b>Legal Proceedings and Enforcement Actions</b>	Notes to Financial Statements.....	Note 16
<b>Description of Capital Structure</b>	Notes to Financial Statements.....	Note 8
<b>Description of Liabilities</b>		
Debt Outstanding	Notes to Financial Statements.....	Notes 6 and 7
Contingent Liabilities	Notes to Financial Statements.....	Note 16
<b>Selected Financial Data for the Five Years Ended December 31, 2013</b>	Five-Year Summary of Selected Consolidated Financial Data .....	Page 27
<b>Management's Discussion and Analysis of Financial Condition and Results of Operations</b>	Management's Discussion and Analysis .....	Pages 25 to 58
<b>Directors and Senior Officers</b>		
Directors' Information	Board of Directors Disclosure .....	Pages 122 to 132
Senior Officers' Information	Senior Officers .....	Pages 133 to 146
Transactions with Directors and Senior Officers	Notes to Financial Statements.....	Note 14



# Annual Report to Shareholders Disclosure Information Required by Farm Credit Administration Regulations

**CoBank, ACB**

	<b>Section</b>	<b>Location</b>
<hr/>		
<b>Involvement in Certain Legal Proceedings</b>		
There were no matters that came to the attention of the Board of Directors or management regarding the involvement of current directors or senior officers in specified legal proceedings which are required to be disclosed.		
<b>Relationship with Independent Auditors</b>		
There has been no change in independent auditors or no disagreements on any matters of accounting principle or financial statement disclosure during the period.		
<b>Financial Statements</b>		
Financial Statements and Footnotes	Financial Information.....	Pages 59 to 102
<b>Report of Management</b>	Report of Management .....	Page 115
<b>Report of Independent Auditors</b>	Report of Independent Auditors .....	Pages 116 to 117
<b>Aggregate Fees Incurred for Services Rendered by Independent Auditors</b>	Board of Directors Disclosure .....	Page 124
<b>Credit and Services to Young, Beginning and Small Farmers and Ranchers and Producers or Harvesters of Aquatic Products</b>	Young, Beginning and Small Farmers.....	Page 149
<b>Unincorporated Business Entities</b>	Unincorporated Business Entities .....	Page 150

# Board of Directors Disclosure as of December 31, 2013

CoBank, ACB

## Directors

During 2013, CoBank was governed by a 28-member Board of Directors including 24 directors elected by customers from six different geographic regions. The Board has elected two outside directors (independent of any customer or Farm Credit System affiliation) and two additional directors to complement the expertise of the customer-elected Board members (customer affiliation permitted).

Director terms run for four years. Employees of Farm Credit System institutions, including CoBank, cannot serve on CoBank's Board of Directors within one year of employment.

## Director Independence

The Board must be composed at all times of at least 75 percent of directors who are deemed to be independent. The Board has adopted standards to assist it in making the annual affirmative determination of each director's independence status. A director will be considered "independent" if he or she meets the 14 criteria for independence set forth by the Board, which were established based upon leading industry practice and the listing standards of the New York Stock Exchange. For example, the loans from CoBank to an affiliated Association or Title III customer, as defined by the Farm Credit Act, where a CoBank director is also a director must not comprise more than 15 percent of the total loans of CoBank. In addition, the Board has made a determination as to each independent director that no relationship exists which, in the opinion of the Board, would interfere with the exercise of independent judgment in carrying out the director's responsibilities. In making these determinations, the Board reviewed and discussed information provided by the directors and by CoBank with regard to each director's business and personal activities as they may relate to CoBank and CoBank's management. As of December 31, 2013, 27 directors were considered to be independent.

## Information About Committees of the Board of Directors

The standing Board committees consist of the following: an Audit Committee, a Compensation Committee, an Executive Committee, a Governance Committee and a Risk Committee. The Board has adopted written charters for each of these committees. The full text of each charter is available on our website at [www.cobank.com](http://www.cobank.com).

All standing Board committees report on their meetings at the regular meeting of the full Board. Minutes of each committee meeting are signed by the committee chair and secretary, or another individual acting in their place at the meeting.

In 2013, the Board of Directors held six regular meetings and standing committees of the Board of Directors held a total of 41 meetings. The primary responsibilities of each committee are described on the following pages.

# Board of Directors Disclosure as of December 31, 2013

CoBank, ACB

## Standing Committees

### Audit Committee

The Audit Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The Audit Committee is governed by a formal charter and chaired by one of the Board's outside directors. All members of the Audit Committee are independent of management of the Bank and any other System entity. During 2013, the Audit Committee met during four of the regular meetings of the Board of Directors, including regular meetings in executive session with senior management, the Chief Risk Officer, the head of the Internal Audit Division, the head of the Asset Review Division, and the Bank's independent auditors. The Audit Committee reviews and approves the quarterly and annual financial statements.

Mr. Barry M. Sabloff serves as Chairman of the Audit Committee. The Board of Directors has determined that Mr. Sabloff has the qualifications and experience necessary to serve as the "Board financial expert," as defined by the rules of the Securities and Exchange Commission and the Farm Credit Administration, and he was so designated.

The primary purpose of the Audit Committee is to assist the Board in fulfilling its oversight responsibilities by carrying out the following responsibilities:

- (1) Overseeing management's conduct of the Bank's financial reporting process and systems of internal accounting and financial controls;
- (2) Monitoring the independence and performance of the Bank's internal audit function, the risk assessment process, and the independent auditors;
- (3) Ensuring the Bank's compliance with legal and regulatory requirements; and
- (4) Providing an avenue of communication among the outside auditors, management and the Board.

Management has the primary responsibility for the consolidated financial statements and the financial reporting process, including the system of internal controls. The Audit Committee oversees the Bank's independent auditors, systems of internal accounting and financial controls, and financial reporting process on behalf of the Board of Directors. In this regard, the Audit Committee helps to ensure independence of the Bank's independent auditors, the integrity of management and the adequacy of disclosure to shareholders. The Audit Committee has unrestricted access to representatives of the Internal Audit Division, independent auditors and financial management.

The Audit Committee preapproves all audit and audit-related services and permitted nonaudit services (including the fees and terms thereof) to be performed for the Bank by its independent auditors, as negotiated by management. The Audit Committee may form and delegate authority to the chairman of the Audit Committee, or a subcommittee of the Audit Committee (consisting of one or more members), when appropriate, including the authority to grant preapprovals of audit and permitted nonaudit services, provided that decisions of the chairman or any subcommittee to grant preapprovals are presented to the full Audit Committee at its next scheduled meeting.

The Audit Committee reviewed the audited consolidated financial statements in the Annual Report for the year ended December 31, 2013, with management and the Bank's independent auditors. The independent auditors are responsible for expressing an opinion on the conformity of the Bank's audited consolidated financial statements with accounting principles generally accepted in the United States of America, including a discussion of the quality of the Bank's accounting principles, the reasonableness of significant judgments, the clarity of disclosures in the consolidated financial statements and the adequacy of internal controls. The Audit Committee discussed with the independent auditors the results of the 2013 audit and all other matters required to be discussed by Statements on Auditing Standards. In addition, the Audit Committee received, reviewed and discussed the written disclosures from the independent auditors required by Independence Standards Board Standard No. 1, "Independence Discussions with Audit Committees." Based on the review and discussions described above, the Audit Committee recommended to the Board of Directors that the audited consolidated financial statements be included in the Bank's Annual Report for the year ended December 31, 2013 and for filing with the FCA.

# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

Aggregate fees incurred by the Bank for services rendered by its independent auditors, PricewaterhouseCoopers LLP, for the years ended December 31, 2013 and 2012 were as follows:

Year Ended December 31,	2013	2012
Audit	\$ 590,500	\$ 761,000
Audit-related	76,100	227,500
All Other	408,823	140,309
Total	\$ 1,075,423	\$ 1,128,809

Audit fees were for the annual audit of the consolidated financial statements, including merger-related procedures in 2012.

Audit-related fees were for assurance and related services primarily in connection with a preferred stock offering in 2013, and the merger with AgBank and a preferred stock offering in 2012.

All Other fees for both 2013 and 2012 were primarily for consulting services related to information systems and data management.

### Compensation Committee

The Compensation Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee are independent of management. The committee is primarily responsible for representing the Board in matters related to compensation programs for the Bank, including salary, incentive and benefits programs, and in facilitating the terms of employment, compensation and evaluation of the Chief Executive Officer. The committee also reviews the results of the Bank's affirmative action program and encourages programs to support diversity and inclusion.

### Executive Committee

The Executive Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for developing for Board consideration recommendations surrounding the design and implementation of the Bank's strategic plan. It acts on behalf of the Board between Board meetings when necessary. The Executive Committee is responsible for reviewing the Bank's budget and reports of operations, and for reviewing the capital adequacy plan and portfolio strategy. The committee reviews the Bank's annual business and financial plan and recommends such plan for approval by the Board. The committee also provides advice and counsel to the Board and management on policy matters related to capital and finance.

### Governance Committee

The Governance Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for monitoring and recommending for Board consideration corporate governance processes and structures that are consistent with leading practices. The committee coordinates the annual Board self-evaluation and a periodic director peer evaluation. The committee also oversees the Bank's director nomination process, which is conducted by the Nominating Committee (see page 125), and director election process. In addition, the committee annually assesses the needs of the Board – taking into account the experience and background of current directors – and also recommends prospective outside and appointed directors to the full Board.

### Risk Committee

The Risk Committee members are appointed by the Board chair in consultation with the Board officers and committee chairs. The committee is primarily responsible for overseeing the enterprise risk management practices of the Bank, including management's ability to assess and manage the Bank's credit, market, interest rate, liquidity, legal and compliance, reputational, technology and operational risks. The committee also provides an open avenue of communication between management and the Board in order to effectively manage risks.



# Board of Directors Disclosure as of December 31, 2013

CoBank, ACB

## Other Committees

### Nominating Committee

The Nominating Committee for 2013 consisted of 19 customer-owner representatives, all of whom were elected by the Bank's stockholders. No member of the Board or management served on the Nominating Committee. This committee is charged with the responsibility to identify qualified candidates for Board membership and to review director nominations, helping to ensure that the Bank continues to attract a highly qualified and diverse Board. The Nominating Committee seeks candidates who are recognized leaders and who fulfill specific needs for skill set, industry knowledge, and geographic and other forms of diversity on the Board. Customers are encouraged to submit resumes of candidates for elected positions. The Nominating Committee makes a best effort to recommend at least two candidates for each position up for election. Shareholders and interested candidates may gather signatures for petitions to run for the Board following the conclusion of the Nominating Committee's work. A nominee must not have reached age 70 on or prior to the date the term of office is to begin and must meet other eligibility requirements established by Bank bylaws and federal regulations.

### Succession Committee

The Succession Committee was appointed in June 2013 by the Board of Directors to lead an effective CEO succession process over an estimated three year period. The Succession Committee will identify candidates with the skill set and competencies necessary to lead CoBank in the future and to address the challenges that CoBank will face to continue as a dependable provider of credit and value-added financial services to agriculture and rural infrastructure businesses for the benefit of rural America. The Succession Committee consists of all continuing directors who were members of the Compensation Committee, Board officers and all other members who were Board committee chairs during 2013.

# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

The following represents certain information regarding the directors as of December 31, 2013, including business experience during the past five years. The terms of directors are scheduled to expire as of December 31 of the years indicated.

- |                            |                                  |                                 |
|----------------------------|----------------------------------|---------------------------------|
| 1 - Audit Committee        | 5 - Risk Committee               | 9 - Governance Committee Chair  |
| 2 - Compensation Committee | 6 - Audit Committee Chair        | 10 - Risk Committee Chair       |
| 3 - Executive Committee    | 7 - Compensation Committee Chair | 11 - Succession Committee       |
| 4 - Governance Committee   | 8 - Executive Committee Chair    | 12 - Succession Committee Chair |

Name	Term Expires	Principal Occupation and Other Affiliations
<b>Gene J. Batali</b> <sup>2, 11</sup>  Age: 72 Year Service Began: 2007 Also Served: 2003-2005	2013	<b>Principal Occupation:</b> Retired President: Batali Ranch, Inc., Yakima, WA.
<b>Robert M. Behr</b> <sup>1</sup>  Age: 59 Year Service Began: 2013	2016	<b>Principal Occupation:</b> Chief Operating Officer: Citrus World, Inc., producing and marketing Florida's Natural brand citrus juices, Lake Wales, FL.  <b>Other Affiliations:</b> Director: Florida Citrus Processors Association, a trade organization, Lakeland, FL.
<b>Robert W. Bray</b> <sup>3</sup>  Age: 58 Year Service Began: 2012	2014	<b>Principal Occupation:</b> Owner/Operator: Bray Ranches, a farming and ranching operation and big game hunting business, Redvale, CO.  <b>Other Affiliations:</b> Director: The Farm Credit Council, a trade organization, Washington, DC; Director: Colorado Agricultural Development Authority, a trade organization, Lakewood, CO; Director: Club 20, a coalition of county business interests, Grand Junction, CO; Officer: San Miguel Water Conservancy District, an agricultural water district, Norwood, CO; Commissioner: Colorado Parks and Wildlife Commission, a state regulatory agency, Colorado.
<b>Oghi A. DeGiusti, Jr.</b> <sup>2, 7, 11, 12</sup>  Age: 61 Year Service Began: 2012	2014	<b>Principal Occupation:</b> Owner/Operator: DeGiusti Farms, an alfalfa, grass, hay, wheat and cow/calf stocker operation, Tuttle, OK.  <b>Other Affiliations:</b> Director: The Farm Credit Council, a trade organization, Washington, DC; Alternate Director: Grady County Farm Services Agency, Chickasha, OK; Director: Grady County Alfalfa Hay Growers Association, Chickasha, OK.
<b>Everett M. Dobrinski</b> <sup>3, 8, 11</sup> Chairman  Age: 67 Year Service Began: 1999	2015	<b>Principal Occupation:</b> Owner/Operator: Dobrinski Farm, a cereal grain and oilseed farm, Makoti, ND.  <b>Other Affiliations:</b> Director: North Dakota Coordinating Council for Cooperatives, a trade association, Jamestown, ND; Director: The Farm Credit Council, a trade organization, Washington, DC.

# Board of Directors Disclosure as of December 31, 2013

CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
<b>William M. Farrow III</b> <sup>5</sup> Age: 58 Year Service Began: 2007	2014	<b>Principal Occupation:</b> Director, President and CEO: Urban Partnership Bank, a commercial bank, Chicago, IL; Owner: Winston and Wolfe LLC, a technology development company, Chicago, IL. <b>Other Affiliations:</b> Director: Federal Reserve Bank of Chicago, a federal depository bank, Chicago, IL; Trustee: Illinois Institute of Technology, a PhD granting technological university, Chicago, IL.
<b>Mary E. Fritz</b> <sup>4, 9, 11</sup> Second Vice Chairman Age: 64 Year Service Began: 2003	2015	<b>Principal Occupation:</b> Owner/Operator: Quarter Circle JF Ranch, Inc., a dry land grain and cow/calf operation, Chester, MT. <b>Other Affiliations:</b> Chair: The Farm Credit Council, a trade organization, Washington, DC.
<b>John L. Guthrie</b> <sup>3</sup> Age: 69 Year Service Began: 2012	2016	<b>Principal Occupation:</b> Owner/Operator: cow/calf and stocker cattle ranch and diversified farming operation, Porterville, CA; Partner: McGruder Partners, a farming operation, Porterville, CA; Director: Guthrie Investment Co., managing farming and investments, Porterville, CA. <b>Other Affiliations:</b> Chair: Federal Farm Credit Banks Funding Corporation, the issuer of Systemwide debt, Jersey City, NJ; Director: F&T Financial Services, a financial institution for consumer loans and debt collections, Porterville, CA; Director: California Cattlemen's Association, a trade association, Sacramento, CA.
<b>William H. Harris</b> <sup>4</sup> Age: 64 Year Service Began: 2001	2015	<b>Principal Occupation:</b> Owner/Operator: Harris Farms, a cash crop farming operation, LeRoy, NY; President: Eatwell Farms, Inc., a custom field work operation, LeRoy, NY. <b>Other Affiliations:</b> Director: ACDI/VOCA, international agricultural development, Washington, DC.
<b>Erik N. Jacobson</b> <sup>5</sup> Age: 69 Year Service Began: 2013	2014	<b>Principal Occupation:</b> Retired CEO: NORPAC Foods, Inc., an international fruit and vegetable processing and marketing cooperative, Stayton, OR; Owner: RG Solutions, LLC, a consulting firm, Bend, OR.
<b>Daniel T. Kelley</b> <sup>2, 11</sup> First Vice Chairman Age: 65 Year Service Began: 2004	2017	<b>Principal Occupation:</b> Owner/Operator: Kelley Farms, a diversified corn and soybean operation, Normal, IL. <b>Other Affiliations:</b> Chairman: Illinois Agricultural Leadership Foundation, agricultural leadership development, Macomb, IL; Director: Evergreen FS, Inc., a farm supply and grain marketing operation, Bloomington, IL; Director: Midwest Grain, LLC, grain merchandising, Bloomington, IL; Director: Nationwide Mutual Insurance Company, an insurance company, Columbus, OH; Director: Nationwide Bank, a federal savings bank, Columbus, OH; Director: Farmland Mutual Insurance Company, a fire and casualty insurance company, Des Moines, IA.

# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
<b>James A. Kinsey</b> <sup>3</sup>  Age: 64 Year Service Began: 2001	2016	<b>Principal Occupation:</b> Owner/Operator: Kinsey's Oak Front Farms, a purebred angus seed-stock producer, Flemington, WV.  <b>Other Affiliations:</b> Director: Farm Credit of the Virginias, ACA, agriculture finance, Staunton, VA.
<b>George B. Kitchens</b> <sup>1</sup>  Age: 60 Year Service Began: 2013	2013	<b>Principal Occupation:</b> General Manager and CEO: Joe Wheeler EMC, an electric distribution cooperative, Trinity, AL.  <b>Other Affiliations:</b> Director: Alabama Rural Electric Association, a trade association, Montgomery, AL; Director: Seven States Power Corporation, a power generation cooperative, Chattanooga, TN; Director: North Alabama Public Power Association, an electric utility service organization, Decatur, AL; Director: North Alabama Industrial Development Association, an economic development organization, Decatur, AL; Director: United Utility Supply Cooperative, a utility products distributor, Louisville, KY; Director: Morgan County Economic Development Association, Decatur, AL.
<b>David J. Kragnes</b> <sup>3</sup>  Age: 61 Year Service Began: 2009	2016	<b>Principal Occupation:</b> Owner/Operator: wheat, sugar beet, soybean and corn farm, Felton, MN.  <b>Other Affiliations:</b> Director: Quentin Burdick Center for Cooperatives, an advisory board, Fargo, ND.
<b>James R. Magnuson</b> <sup>4</sup>  Age: 60 Year Service Began: 2013	2014	<b>Principal Occupation:</b> General Manager and CEO: Key Cooperative, an agricultural grain marketing and farm supply cooperative, Roland, IA.  <b>Other Affiliations:</b> Chairman: United Suppliers, Inc., wholesale agricultural input supplier, Eldora, IA; Director: Agricultural Cooperative Employment Services, an employment service, Manhattan, KS.
<b>J. Scott Markham</b> <sup>5</sup>  Age: 63 Year Service Began: 2010	2013	<b>Principal Occupation:</b> Owner/Operator: Markham Farms, Inc., a dairy, diversified corn, dairy heifer and beef operation, Constableville, NY.
<b>Jon E. Marthedal</b> <sup>4</sup>  Age: 57 Year Service Began: 2013	2017	<b>Principal Occupation:</b> Owner/Operator: Marthedal Farms, producing grapes, raisins and blueberries, Fresno, CA; Owner/Operator: Keystone Blue Farms, LLC, producing blueberries, Fresno, CA.  <b>Other Affiliations:</b> Director: Sun-Maid Growers of California, marketing, receiving and processing raisins, Kingsburg, CA; Director: California Blueberry Commission, a state commission, Fresno, CA; Vice Chairman: California Raisin Marketing Board, a state marketing board, Fresno, CA; Vice Chairman: Raisin Administrative Committee, a federal marketing order, Fresno, CA; President: California Blueberry Association, a voluntary state organization, Fresno, CA.
<b>Gary A. Miller</b> <sup>1</sup>  Age: 53 Year Service Began: 2006	2017	<b>Principal Occupation:</b> President and Chief Executive Officer: GreyStone Power Corporation, an electric membership corporation, Douglasville, GA.  <b>Other Affiliations:</b> Vice Chair: Wellstar Health System, healthcare, Marietta, GA; Director: GRESKO Utility Supply, Inc., electric material supplier, Smarr, GA; Treasurer: Douglas County Development Authority, an economic development agency, Douglasville, GA.



# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
<b>Catherine Moyer</b> <sup>5</sup>  Age: 38 Year Service Began: 2010	2014	<b>Principal Occupation:</b> CEO and General Manager: Pioneer Communications, a rural telephone and communications company, Ulysses, KS.  <b>Other Affiliations:</b> Director: NTCA-The Rural Broadband Association, a trade organization, Washington, D.C.; Director: Kan-ed Advisory Committee, an educational interactive network, Topeka, KS; Commissioner: Kansas Lottery Commission, Topeka, KS; Director: Telcom Insurance Group, provider of property and casualty coverage to small telecommunications providers, Greenbelt, MD.
<b>Alarik Myrin</b> <sup>1</sup>  Age: 67 Year Service Began: 2012	2014	<b>Principal Occupation:</b> President: Myrin Ranch, a ranching and farming operation, Altamont, UT; Manager: Myrin Livestock Co., LLC, a family cattle ranch, Altamont, UT; Managing Member: Myrin Investment Co., LLC., real estate rental management, Altamont, UT.  <b>Other Affiliations:</b> Director: Lake Fork Irrigation Co., a water irrigation company, Altamont, UT; Director: Western Agrihaul, LLC, a trucking operation, Altamont, UT; Director: Canyon Meadows Ranch LLC, retail and wholesale grass fed beef, Altamont, UT; Director: Uintah Basin Medical Center, a hospital, rehab center and nursing home facility, Roosevelt, UT.
<b>David S. Phippen</b> <sup>2, 11</sup>  Age: 63 Year Service Began: 2012	2015	<b>Principal Occupation:</b> Partner: Travaille & Phippen, Inc., an almond grower and processing company, and additional partnerships related to almonds and farm management, Manteca, CA.  <b>Other Affiliations:</b> Director: Almond Board of California, a trade organization, Modesto, CA; Director: San Joaquin County Farm Bureau, a trade organization, Stockton, CA.
<b>Ronald J. Rahjes</b> <sup>1</sup>  Age: 62 Year Service Began: 2012	2015	<b>Principal Occupation:</b> Member: Wesley J. Rahjes and Sons, Inc., a diversified family farming corporation producing wheat, corn, soybeans and grain sorghum, Kensington, KS; Partner: R&D Farms, a farming partnership, Kensington, KS; Owner: R&C Tax Service, an accounting and tax firm, Kensington, KS.  <b>Other Affiliations:</b> Director: Rural Telephone/Nextech, Inc., a telecommunications company, Lenora, KS.
<b>David L. Reinders</b> <sup>2, 11</sup>  Age: 57 Year Service Began: 2011	2014	<b>Principal Occupation:</b> Chief Executive Officer: Sunray Co-op, a diversified farmer-owned grain cooperative, Sunray, TX.  <b>Other Affiliations:</b> Director: Texas Agricultural Cooperative Council, a statewide industry association for cooperatives, Austin, TX.
<b>Clint E. Roush</b> <sup>5</sup>  Age: 66 Year Service Began: 2012	2014	<b>Principal Occupation:</b> President: Clint Roush Farms, Inc., a family farming operation producing wheat, alfalfa and feeder cattle, Arapaho, OK.  <b>Other Affiliations:</b> President: Farmers Cooperative Association of Clinton, OK, a grain and fertilizer cooperative, Clinton, OK; Director: Custer County Cattlemen's Association, a trade organization, Arapaho, OK; Director: Custer County Rural Water District, a water distribution organization, Custer City, OK.

# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

Name	Term Expires	Principal Occupation and Other Affiliations
<b>Barry M. Sabloff</b> <sup>1, 6, 11</sup> Age: 67 Year Service Began: 2005	2016	<b>Principal Occupation:</b> General Partner: Sabloff Family Limited Partnership, L.P., a partnership managing investments in Marquette National Corporation common stock, Winnetka, IL; Retired Executive Vice President, Bank One, N.A. (now merged with JPMorgan Chase & Co.). <b>Other Affiliations:</b> Vice Chairman/Director: Marquette National Corporation, a bank holding company, Chicago, IL; Vice Chairman/Director: Marquette Bank, a community bank, Chicago, IL; Director: Calypso Technology, Inc., a provider of trading systems to financial institutions, San Francisco, CA; Vice Chair/Trustee: Columbia College Chicago, a private arts and media college, Chicago, IL; Director: The American School in London Foundation, an educational foundation, Princeton, NJ; Advisory Committee: AHC Metro Opportunity Fund II LP, real estate investment, Evanston, IL.
<b>Richard W. Sitman</b> <sup>4</sup> Age: 60 Year Service Began: 1999 Also Served: 1995-1996	2015	<b>Principal Occupation:</b> Retired Owner/Operator: Jos. M. Sitman, Inc., a retail rental and storage company, Greensburg, LA. <b>Other Affiliations:</b> Chairman: Dixie Electric Membership Corporation, an electric distribution cooperative, Baton Rouge, LA; Chairman: DEMCO Energy Services, LLC, an electric service supplier, Baton Rouge, LA; Chairman: Dixie Business Center, a business incubator, Denham Springs, LA; Director: First Guaranty Bank, a commercial bank, Hammond, LA; Director: The Farm Credit Council, a trade organization, Washington, DC; Director: Louisiana Council of Farmer Coops, a trade organization, Port Allen, LA; Director: Zachary Taylor Parkway Association, an economic development association, Baton Rouge, LA.
<b>Kevin A. Still</b> <sup>5, 10, 11</sup> Age: 56 Year Service Began: 2002	2014	<b>Principal Occupation:</b> President and Chief Executive Officer: Co-Alliance, LLP, a partnership of five cooperatives supplying energy, agronomy and animal nutrition, producing swine and marketing grain, Avon, IN; Chief Executive Officer and Treasurer: Midland Co-op, Inc., IMPACT Co-op, Inc., LaPorte County Farm Bureau Cooperative Association, Frontier Co-op, Inc., and Excel Co-op, Inc., agricultural retail cooperatives, Avon, IN. <b>Other Affiliations:</b> Vice President/Director: Connexities, LLC, a technology provider, Danville, IN; President and Owner: Still Farms LLC, a grain farm, Galesburg, IL.
<b>Scott H. Whittington</b> <sup>4</sup> Age: 61 Year Service Began: 2013	2016	<b>Principal Occupation:</b> General Manager: Lyon-Coffey Electric Cooperative, an electric distribution cooperative, Burlington, KS. <b>Other Affiliations:</b> President: Kansas Electric Power Cooperative, a generation and transmission cooperative, Topeka, KS; Alternate Trustee: Kansas Electric Cooperatives, a statewide organization for electric cooperatives, Topeka, KS; Director: First National Bank of Kansas, commercial bank, Burlington, KS.

# Board of Directors Disclosure as of December 31, 2013

CoBank, ACB

## Compensation of Directors

For 2013, directors were compensated in cash at an annual rate of \$55,594, paid in quarterly installments, which was the maximum amount permitted by the FCA for CoBank directors. Directors may elect to defer payment of all or part of their director compensation in accordance with agreements and applicable law. Compensation is for attendance at Board meetings, certain other meetings preapproved by the Board, and special duties as assigned. Directors' compensation is reduced by \$2,500 for an unexcused absence at any regular Board meeting. FCA regulations also allow additional compensation to be paid to a director in exceptional circumstances where extraordinary time and effort are involved. In 2013, the Board approved additional compensation in excess of \$55,594 to the Board and Audit Committee chairmen, and to other directors in recognition of greater than normal involvement in connection with special assignments. Additional information for each director who served during 2013 is provided below. Current CoBank policy regarding reimbursements for travel, subsistence and other related expenses states that for meetings designated by the Board and approved special assignments, Board members shall be reimbursed for reasonable travel and related expenses that are necessary and that support CoBank's business interests. As may be appropriate, CoBank may share in the reimbursement of expenses with other organizations. A copy of CoBank's policy is available to shareholders upon request. The aggregate amount of reimbursement for travel, subsistence and other related expenses for all directors as a group was \$741,050, \$720,081 and \$402,028 for the years ended December 31, 2013, 2012 and 2011, respectively.

# Board of Directors Disclosure as of December 31, 2013

## CoBank, ACB

The following table presents the number of days served at Board meetings and other official CoBank activities, and compensation paid to each director for the year ended December 31, 2013.

Name of Director	Number of Days Served at Board Meetings	Number of Days Served in Other Official CoBank Activities	Total Compensation Paid During 2013
Gene J. Batali	21	36	\$ 60,694
Robert M. Behr	21	9	55,594
Robert W. Bray*	21	17	56,394
Oghi A. DeGiusti, Jr.*	21	37	61,494
Everett M. Dobrinski*	21	63	72,272
William M. Farrow III	21	2	56,394
Mary E. Fritz*	21	44	64,694
John L. Guthrie*	21	26	56,794
William H. Harris	20	14	57,094
Erik N. Jacobson	21	15	55,994
Daniel T. Kelley	20	41	67,094
James A. Kinsey	21	21	56,794
George B. Kitchens	21	22	55,594
David J. Kragnes	21	26	56,794
James R. Magnuson	21	9	57,094
J. Scott Markham	20	29	54,994
Jon E. Marthedal	20	23	57,094
Gary A. Miller	21	22	55,594
Catherine Moyer	21	10	55,994
Alarik Myrin	21	32	55,594
David S. Phippen	21	33	60,294
Ronald J. Rahjes	21	32	55,594
David L. Reinders	21	31	60,694
Clint E. Roush	21	37	57,494
Barry M. Sabloff	21	23	72,272
Richard W. Sitman*	21	27	57,094
Kevin A. Still	21	10	57,894
Scott H. Whittington	21	25	55,994
<b>Total</b>	<b>584</b>	<b>716</b>	<b>\$ 1,647,388</b>

\* In 2013, these directors represented CoBank's interests by serving on the boards of various trade groups and other organizations important to the Bank. Days of service related to these activities and compensation received (if any) are not included in this report.

Pursuant to the terms of the AgBank merger agreement, there were eight Board advisors that served during 2013. These advisors are not included in the table above. Total compensation paid to the Board advisors in 2013 was \$444,752.

# Senior Officers

CoBank, ACB

## **Robert B. Engel, Chief Executive Officer**

Mr. Engel, 60, was appointed president and chief executive officer effective July 1, 2006. Mr. Engel remained chief executive officer with the appointment of Mary McBride as president effective July 1, 2013. Mr. Engel is responsible for implementing the Bank's strategic and business direction as set by the Board of Directors. Mr. Engel also serves as a member of the Board of Directors of the Federal Farm Credit Banks Funding Corporation. Prior to joining CoBank in 2000 as president and chief operating officer, he was chief banking officer at HSBC Bank USA. During his 14-year tenure at HSBC, Mr. Engel served in a variety of management and credit positions. Mr. Engel has 29 years of banking experience, and eight years of accounting experience with KPMG and Deloitte & Touche. He serves on the Boards of Trustees of Niagara University and Regis University, as well as the Board of Directors of New Ventures in Higher Education, Inc., and as vice chairman of the Graduate Institute of Cooperative Leadership. He also serves as chairman of the National Council of Farmer Cooperatives.

## **Mary E. McBride, President**

Ms. McBride, 58, was appointed president effective July 1, 2013. Ms. McBride is responsible for all of the Bank's lending units as well as Credit, Banking Services, and Corporate Communications. She serves as the chair of the Board of Directors of Farm Credit Leasing Services Corporation (FCL). Prior to her current position, Ms. McBride was CoBank's chief banking officer. Ms. McBride also has served as chief operating officer and as executive vice president for the Bank's Rural Infrastructure Banking Group (formerly known as the Communications and Energy Banking Group). Before joining CoBank in 1993, Ms. McBride worked as senior vice president of Wells Fargo/First Interstate Bank of Denver, N.A. Prior to that, she was assistant vice president at Bank of Boston. In total, Ms. McBride has more than 30 years of financial services experience. She serves on the Board of Trustees of Mile High United Way.

## **Thomas E. Halverson Chief Banking Officer**

Mr. Halverson, 49, was appointed chief banking officer effective July 1, 2013. Mr. Halverson is responsible for CoBank's Regional Agribusiness, Corporate Agribusiness and Rural Infrastructure banking groups. He serves on the Board of Directors of FCL. Prior to joining CoBank, Mr. Halverson spent more than 15 years with Goldman Sachs, most recently as managing director and chief of staff for Goldman Sachs Bank USA. Prior to that he served in a variety of executive positions at the firm, including head of credit risk management for Goldman Sachs in Asia ex-Japan. Before joining Goldman Sachs, Mr. Halverson served as principal credit officer for country risk at the European Bank for Reconstruction and Development.

## **Ann E. Trakimas, Chief Operating Officer**

Ms. Trakimas, 57, was appointed chief operating officer effective January 3, 2011. Ms. Trakimas oversees the Finance, Legal, Information Technology, Human Resources, Operations, and Legislative and Regulatory Relations functions. Before joining CoBank, Ms. Trakimas served as a director on the board of the Federal Farm Credit Banks Funding Corporation for six years. She also served as chairman of the Funding Corporation's Audit Committee and as a member of the Systemwide Audit Committee. Prior to that, she worked for Goldman Sachs, where she held numerous executive positions including head of the firm's Financial Institutions Credit Risk Management and Advisory team. Ms. Trakimas has more than 30 years of experience in the financial services industry. She serves on the Board of Directors for the Denver Metropolitan Affiliate of Susan G. Komen for the Cure.

## **David P. Burlage, Chief Financial Officer**

Mr. Burlage, 50, was appointed chief financial officer effective November 16, 2009. Mr. Burlage oversees the Controller and Treasury areas of the Bank, which include the funding, asset/liability management, financial planning, capital, accounting, tax and reporting functions of the Bank. Prior to his current position, Mr. Burlage served as senior vice president of the Finance Division. Mr. Burlage began his career as an auditor with Arthur Andersen & Co. Mr. Burlage has over 28 years of financial experience. He serves on the Board of Governors of the Farm Credit System Association Captive Insurance Company, the Board of Directors of Young Americans Center for Financial Education and the Board of Advisors of University of Colorado Denver Business School. He is a CPA and member of the American Institute of Certified Public Accountants.



## Senior Officers (Continued)

### CoBank, ACB

#### **Lori L. O’Flaherty, Chief Risk Officer**

Ms. O’Flaherty, 54, was appointed chief risk officer effective July 2, 2013. Ms. O’Flaherty provides leadership and guidance on all key risk areas of the Bank, including credit risk, operational risk, asset/liability risk and market risk, and reputational risk. Prior to her current position, Ms. O’Flaherty served as the Bank’s chief credit officer and was responsible for all of CoBank’s credit approval and administrative functions, including loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Ms. O’Flaherty also served as division manager for Corporate Agribusiness. Before joining CoBank in 1997, Ms. O’Flaherty was vice president of Wells Fargo/First Interstate Bank, N.A. Ms. O’Flaherty has more than 30 years of experience in commercial banking. She serves on the Board of Directors of Big Brothers Big Sisters of Colorado, Inc.

#### **John Svisco, Chief Business Process and Accountability Officer**

Mr. Svisco, 55, was appointed chief business process and accountability officer effective July 2, 2013. Mr. Svisco works to ensure that the Bank’s organizational structures, business processes and systems are aligned and delivering optimal levels of operating effectiveness and efficiency. In addition, he has responsibility for CoBank’s Non-Credit Services, Administrative Services, and Enterprise Solutions and Services functions. Mr. Svisco, who joined CoBank in 2002, managed loan and lease operations during his first seven years at the Bank as senior vice president of the operations division, and was most recently chief administrative officer. Prior to that, he was senior vice president of the human resources and administrative services divisions. He has extensive experience in operations and finance in the financial services industry, including 20 years with HSBC Bank USA, where his last position was senior vice president of operations services. He serves on the Boards of Directors of AgVantis, Inc. and Mount Saint Vincent Home.

#### **Daniel L. Key, Chief Credit Officer**

Mr. Key, 57, was appointed chief credit officer effective July 2, 2013. Mr. Key is responsible for all of CoBank’s credit approval and administrative functions, which include loan approval, credit support and analysis, credit guidelines and training, loan compliance and monitoring, collateral audit and special assets. Prior to his current position, Mr. Key was senior vice president for credit approval. Mr. Key began work with the Farm Credit System in 1978 and joined CoBank in 1993, where he has served in both the relationship manager and credit roles in a wide variety of industries and lending environments.

#### **Gregory J. Buehne, General Counsel (through December 31, 2013)**

Mr. Buehne, 61, was appointed general counsel effective June 16, 2011, and served in that capacity through his retirement on December 31, 2013.

#### **M. Mashenka Lundberg, General Counsel (effective February 18, 2014)**

Ms. Lundberg, 46, was appointed general counsel effective February 18, 2014. Prior to joining CoBank, Ms. Lundberg was a partner with the law firm of Holme Roberts & Owen and served on the firm’s Executive Committee. She has extensive experience in the field of corporate law and represented a wide range of corporate clients in a variety of transactions during her career in private practice.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Overview

This section describes the compensation programs for CoBank's Chief Executive Officer (CEO) and other senior officers, as defined by FCA regulations (collectively, senior officers), as well as those programs for any highly compensated employees as defined by FCA regulations. This section also presents the compensation earned by our CEO, as well as aggregate compensation earned by our other senior officers and any highly compensated employees, for the years ended December 31, 2013, 2012 and 2011. The 2012 period includes information for one employee who became employed by CoBank on January 1, 2012 (and subsequently left the Bank) as a result of the merger with U.S. AgBank, and who met the regulatory definition of a "highly compensated employee" due to previous contractual agreements between the employee and U.S. AgBank.

The Board of Directors, through its Compensation Committee (Committee), has adopted a total compensation philosophy for the Bank. Our total compensation philosophy is intended to align the interests of our senior officers with those of our shareholders and is more fully described below. We accomplish this by providing incentive compensation that rewards performance in relation to the business plan established by our Board of Directors.

Over the last two years, CoBank made modifications to its compensation program to reflect changes in market compensation practices and to further ensure that the compensation program does not encourage excessive risk-taking. The modifications included: (a) a reduction in the maximum award that may be earned under the Bank's short-term incentive plan beginning with the 2012 performance period; (b) a shift in the mix of fixed and variable pay; (c) a reduction in the maximum award that may be earned under the Bank's long-term incentive plan beginning with the 2013 through 2015 performance period; and (d) an incentive compensation recovery ("clawback") provision for the seven members of the Bank's Management Executive Committee, including the CEO, beginning in 2013. We believe these changes balance our risk profile with total compensation while more fully aligning our compensation program with our shareholders' long-term interests and best practices in governance of executive compensation.

As described in the "Financial Condition and Results of Operations" section of Management's Discussion and Analysis on page 26 of this Annual Report, in 2013 CoBank reported record financial performance. As a result of our performance, our short-term incentive plan for 2013 was funded between the target and maximum award levels. In addition, based on strong performance in the 2011 through 2013 period, our long-term incentive plan was also funded between the target and maximum award levels. These and other elements of our senior officers' compensation are explained below.

## Compensation Philosophy and Objectives

The Bank's total compensation philosophy is designed to maintain a compensation program that will:

- Attract, retain and reward associates with the skills required to accomplish the Bank's strategic business objectives;
- Provide accountability and incentives for achievement of those objectives;
- Link compensation to Bank performance and increased shareholder value;
- Properly balance the risk profile of the Bank with both short- and long-term incentives;
- Be designed within a consistent philosophy and framework;
- Create a culture of adherence to core values and strong ethical behavior;
- Be integrated with the Bank's business processes, including business planning, performance management and succession planning; and
- Enhance management of risk and accountability.

The total compensation philosophy seeks to achieve the appropriate balance among market-based salaries, variable incentive compensation and benefits designed to incent and reward both the current and long-term achievement of our strategic business objectives, business and financial plans and mission fulfillment. It also seeks to incent prudent risk taking within Board-established parameters with the proper balance and accountabilities between short- and long-term business performance. For senior officers, CoBank strives to deliver a significant portion of total target compensation through performance-based pay, with the actual proportion of total compensation provided through both short- and long-term incentives varying with actual financial performance, the achievement of Board-approved strategic business objectives and each senior officer's individual performance. We believe this philosophy fosters a performance-oriented, results-based culture wherein compensation varies from one year to the next on the basis of actual results achieved. We also find that this variable performance-based compensation approach is significantly and properly aligned with an acceptable risk profile and shareholder returns.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Process for Compensation Decisions

The Board of Directors has established the Committee to oversee the design, implementation and administration of compensation and benefits programs for CoBank. The Committee meets regularly to execute the responsibilities of its charter. The Committee reviews the performance of the Bank's CEO semi-annually, and the Board of Directors annually approves the compensation level of the CEO, comprised of salary and supplemental compensation, including short- and long-term incentive compensation. The CEO is responsible for setting the compensation levels of the Bank's Management Executive Committee, who, in turn, are responsible for the compensation of all other employees. In addition, the Committee reviews the compensation of the members of the Management Executive Committee.

The Committee generally makes a final decision regarding the CEO's incentive compensation in its January meeting to fully take into consideration the prior year's Bank and individual performance. Decisions about salary and performance also occur at other meetings in the year, as considered appropriate. The Committee utilizes an independent executive compensation consultant, Pay Governance LLC (Consultant), to annually compare the CEO's compensation level to a select peer group of financial institutions. This evaluation helps ensure that such compensation is appropriate for the CEO's experience and competencies and is competitive with positions of similar scope and complexity at relevant financial institutions. The comparative peer group is composed of companies with significant corporate and commercial lending activities, and which have other similar characteristics such as asset size, net income or significant customer relationships. On an annual basis, the Committee assures the qualifications of the Consultant as an independent and objective advisor.

## Components of CoBank Total Compensation Program

Given the cooperative ownership structure of CoBank, no equity or stock-based plans are used to compensate any employee, including senior officers. Senior officers' compensation primarily consists of four components – salary, short-term incentive plan, long-term incentive plan and retirement benefits – as described below. All employees participate in salary, the short-term incentive plan and retirement benefits, while senior officers and specified other senior leaders are also eligible to participate in the long-term incentive plan. All senior officers can elect to defer certain incentive payments through a nonqualified deferred compensation plan. In addition, senior officers are eligible for supplemental retirement benefits, as discussed beginning on page 142.

Overview of Senior Officers' Compensation		
Component	CoBank Philosophy	Design Characteristics
Salary	<ul style="list-style-type: none"><li>• Market-based compensation</li><li>• Provides a foundation for other components</li><li>• Competitive relative to positions of similar scope at a select peer group of financial institutions</li><li>• Reflects individual performance, competencies and responsibilities</li></ul>	
Short-Term Incentive Plan	<ul style="list-style-type: none"><li>• Links rewards to achievement of annual goals</li><li>• Recognizes corporate and individual performance</li><li>• Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives</li><li>• Balances short-term results with the risk profile of the Bank</li><li>• Competitive incentive opportunities relative to peers</li></ul>	<ul style="list-style-type: none"><li>• Multiple corporate financial and non-financial goals</li><li>• Awards are capped</li><li>• Minimum performance for each goal required</li><li>• Minimum return on active patron stock investment of 11% must be achieved in plan year in order for any payout to be made</li><li>• Individual and corporate performance weighted equally, and a minimum level of individual performance must be achieved</li><li>• Clawback provision for the Bank's Management Executive Committee, including the CEO</li></ul>

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

Overview of Senior Officers' Compensation (continued)		
Component	CoBank Philosophy	Design Characteristics
Long-Term Incentive Plan	<ul style="list-style-type: none"> <li>Provides opportunities for compensation tied to CoBank's sustained performance</li> <li>Reinforces accountability and balance for the annual outcomes embodied in the short-term incentive plan</li> <li>Provides balance through emphasis on long-term results, relative to short-term orientation of annual short-term incentive plan</li> <li>Encourages longer-term retention of plan participants</li> <li>Promotes the creation of profitable growth in shareholder and customer value, and enhances the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank</li> <li>Aligns the interests of shareholders and senior officers through bankwide financial and strategic business objectives</li> <li>Competitive incentive opportunities relative to peers</li> </ul>	<ul style="list-style-type: none"> <li>Multiple corporate financial and non-financial goals</li> <li>Awards are capped</li> <li>Three-year performance periods</li> <li>New plan starts each year (plans overlap)</li> <li>Minimum performance for each goal required</li> <li>Minimum return on active patron stock investment of 11% must be achieved in each year of the plan for a full payout</li> <li>No individual performance factor although a minimum level of individual performance must be achieved; corporate performance determines level of payout.</li> <li>Clawback provision for the Bank's Management Executive Committee, including the CEO</li> </ul>
Retirement Benefits	<ul style="list-style-type: none"> <li>Provides for a source of income subsequent to retirement</li> <li>Encourages longer-term retention of plan participants</li> </ul>	<ul style="list-style-type: none"> <li>Benefits vary based on date of hire</li> <li>Senior officers hired prior to January 1, 2007 participate in a defined benefit plan and supplemental retirement plan</li> <li>Senior officers hired on or after January 1, 2007 receive additional, non-elective employer contributions to the 401(k) retirement savings plan</li> <li>Other retirement benefits include a 401(k) retirement savings plan and access to health care benefits. Substantially all participants pay the full premiums associated with postretirement health care benefits</li> <li>Executive Retirement Plan (ERP) for CEO and one other senior officer provides enhanced retirement benefits</li> </ul>

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Salary

### Overview

#### Salary Considerations

- Individual performance and competencies
- Maintenance or expansion of responsibilities and scope of position
- Peer group data and internal equity
- Overall CoBank merit increase budget

Salaries represent a foundational component of CoBank's total compensation program as the value of other components is determined in relation to base salary. Senior officer salaries are market-based and established taking into consideration individual performance, the specific competencies and experience the senior officer brings to CoBank, the responsibilities and scope of the position, peer group data and internal equity. Salaries for senior officers are reviewed annually, and adjusted if necessary.

## Short-Term Incentives

### Overview

#### Short-Term Incentive Plan (STIP)

- Corporate and individual performance weighted equally
- Corporate financial performance measures are balanced: profitability, loan quality and operating efficiency
- Board of Directors also provides subjective evaluation related to achievement of corporate strategic business objectives
- All associates are eligible to participate
- For 2013, CoBank performed at or above maximum award levels on two corporate performance goals and between the target and maximum award levels on the other three corporate performance goals

Annual short-term incentive payments are based on a combination of annual corporate and individual performance. The short-term incentive plan, which has the same design for all employees, including the CEO and other senior officers, aligns the interests of shareholders and employees through the establishment of a balanced scorecard of bankwide financial and strategic business objectives. Under the terms of the plan, a minimum return on active patron stock investment must be achieved for the plan year in order for a payout to be approved, ensuring that shareholders are rewarded first. The return minimum was 11 percent for the years ended December 31, 2013, 2012 and 2011.



# Senior Officers Compensation Discussion and Analysis

## CoBank, ACB

The actual short-term incentive award is determined as follows:

$$\text{Salary} \times \text{Annual Short-Term Incentive Target} \times \text{Corporate Performance Factor} \times \text{Individual Performance Factor}$$

Based on corporate and individual performance factors, participants can earn from zero to 225 percent of their individual annual short-term incentive target (zero to 400 percent for 2011). Payments are typically made during March, but always following the end of the year to which the award is applicable. Participants are not eligible to receive a short-term payout if they are no longer employed by CoBank at the time of the scheduled payout, unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Annual Short-Term Incentive Target* — Annual short-term incentive targets are set for all employees at the beginning of the year. For the 2013 performance period, the target short-term incentive level for the CEO was 75 percent of salary. For the other senior officers, the targets ranged from 40 to 70 percent.
- *Corporate Performance Factor* — Corporate performance is determined at the end of the year based on annual actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of each year by the Board of Directors, and is the same for all employees, including the CEO and other senior officers. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

CoBank utilizes a balanced scorecard for measuring short-term corporate performance to emphasize overall success in executing our strategy and managing risks. The short-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and operating efficiency, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each year by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of the year. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to 150 percent (zero to 200 percent for 2011), depending on performance against the targets. The Committee approves the overall corporate performance factor and funding of the STIP for actual performance relative to target. The 2013 Short-Term Corporate Scorecard is as follows:

2013 Short-Term Corporate Scorecard	
Performance Measure	Weight
Net Income	25 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	25 %
Operating Expense Ratio	10 %

- *Individual Performance Factor* — At the beginning of each year, all CoBank employees, including the CEO and other senior officers, establish individual goals they seek to achieve that year in support of the business. These individual goals are anchored to the Bank's business and financial plan, as well as the Bank's strategic business objectives and also include key behavioral competencies appropriate for that employee. The CEO is responsible for administering the short-term incentive plan and approves the individual performance factors of the other senior officers. The Board of Directors approves the goals and individual performance factor of the CEO. The assessment of an individual's actual performance with respect to his or her annual goals is reflected as an individual performance factor and ranges from zero to 150 percent (zero to 200 percent for 2011).

The actual short-term incentive awards for 2013, 2012 and 2011 for the CEO, other senior officers and any highly compensated employees are presented in the Summary Compensation Table on page 145.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Long-Term Incentives

### Overview

#### Long-Term Incentive Plan (LTIP)

- Awards based upon corporate performance for overlapping three-year periods
- Corporate financial performance measures are balanced: profitability, loan quality and capital adequacy
- Board of Directors also provides subjective evaluation related to the achievement of corporate strategic business objectives
- For the 2011 through 2013 performance period, CoBank performed at or above maximum award levels on three corporate performance goals and between target and maximum award levels on the other two corporate performance goals

CoBank utilizes a long-term incentive compensation plan that provides senior officers and specified other senior leaders with the opportunity for compensation tied to CoBank's sustained success. The long-term incentive plan provides the accountability and balance for the annual outcomes embodied in the short-term plan. Participants in the long-term plan directly influence the longer-term outcomes of actions and risks taken during each performance period, which provides the proper balance between short-term results and long-term value creation. Eligibility for participation is limited to those individuals who clearly have the ability to drive the success of strategies critical to long-term value creation for shareholders. The purpose of this plan is to encourage longer-term retention of plan participants, to promote the creation of profitable growth in shareholder and customer value, and to enhance the sustainability of CoBank to serve its customers while providing proper balance to the risk profile of the Bank. The long-term incentive plan aligns the interests of shareholders and senior officers through the establishment of bankwide financial and strategic business objectives, and reinforces a long-term focus on financial performance, strategic positioning and risk management.

Long-term incentive plan payouts are based on corporate performance in the achievement of key financial metrics and strategic business objectives over a three-year performance period, as defined by CoBank's long-term corporate scorecard. These three-year performance metrics and objectives are established at the beginning of each three-year performance period by the Board of Directors in connection with the annual business and financial plan. A minimum return on active patron stock investment must be achieved in each year of the three-year performance period for a full payout to be approved, ensuring that shareholders are rewarded first. The return minimum is 11 percent for the 2011 through 2013, 2012 through 2014 and 2013 through 2015 performance periods.

The actual long-term incentive award is determined as follows:

$$\text{Salary} \times \text{Long-Term Incentive Target} \times \text{Corporate Performance Factor}$$

Based on the corporate performance factor, participants can earn from zero to 200 percent of their individual long-term incentive target (zero to 150 percent beginning with the 2013 through 2015 performance period). Payments are typically made during March of each year following the end of the three-year performance period to which the award is applicable. Participants are not eligible to receive a full payment at the time of the scheduled payout if their performance did not meet expectations during the performance period, or if their employment terminated for reason of retirement, death or disability during the performance period. Participants are not eligible to receive any payment at the time of the scheduled payout if they are no longer employed by CoBank for reasons other than retirement, death or disability, unless otherwise provided for in an employment agreement. The key elements of the actual payout are described below.

- *Long-Term Incentive Target* — For the 2011 through 2013 performance period, the long-term incentive target for the CEO was 150 percent of salary. For the remaining senior officers, the targets ranged from 40 to 90 percent.
- *Corporate Performance Factor* — Corporate performance is determined at the end of a designated three-year period based on actual business results relative to a balanced scorecard of bankwide financial and strategic business objectives, as established at the beginning of the three-year performance period by the Board of Directors. The Board of Directors retains the right to make adjustments to the corporate performance factor, where appropriate, in addition to providing a subjective performance result for the achievement of strategic business objectives.

# Senior Officers Compensation Discussion and Analysis

## CoBank, ACB

CoBank utilizes a balanced scorecard for measuring long-term corporate performance to emphasize overall success in executing our strategy and managing risks. The long-term corporate scorecard establishes certain key performance indicators, of which 80 percent focus on the achievement of specified financial measures related to profitability, loan quality and capital adequacy, and 20 percent focus on the achievement of the strategic business objectives that are established at the beginning of each three-year performance period by the Board of Directors. The final performance result, or corporate performance factor, is determined by comparing the actual performance of each measure to the targets established at the beginning of each three-year performance period. Each scorecard performance measure is weighted separately, and the factor is set such that if performance of each measure exactly meets the established target, the result is a performance factor of 100 percent. The corporate performance factor can vary from zero to a maximum of 200 percent (zero to 150 percent beginning with the 2013 through 2015 performance period), depending on performance against the targets. The Committee approves the corporate performance factor based on actual performance in comparison to target. The Long-Term Corporate Scorecards for the three-year performance periods 2011 through 2013, 2012 through 2014 and 2013 through 2015 are as follows:

Long-Term Corporate Scorecards:	
2011 – 2013, 2012 – 2014 and 2013 – 2015 Periods	
Performance Measure	Weight
Net Income	20 %
Permanent Capital Ratio	20 %
Return on Common Equity	20 %
Strategic Business Objectives	20 %
Loan Quality (Adverse Loans to Risk Funds)	20 %

The actual long-term incentive awards for 2013, 2012 and 2011 for the CEO and other senior officers are presented in the Summary Compensation Table on page 145.

### Terms of Senior Officers' Employment Agreements

As of December 31, 2013, two of our senior officers, including the CEO, are employed pursuant to employment agreements, which provide specified compensation and related benefits to these senior officers in the event their employment is terminated, except for termination for cause. In the event of termination in 2014 except for cause, the employment agreements provide for (a) payment of the officer's prorated salary and incentives through the date of the termination, (b) semi-monthly payments aggregating two times the sum of the officer's base compensation and short-term incentives at target, (c) enhanced retirement benefits if the termination results from a change in control, (d) continued participation in the Bank's health and welfare benefits over a two year period, and (e) certain other benefits over a two year period to the same extent as such benefits were being provided on the date of termination. The employment agreements also provide certain limited payments upon death or disability of the officer. The agreements also provide for non-competition and non-solicitation by the officers over the term of the payments, and the payments are considered taxable income, without any consideration or provision for "gross-up" for tax purposes.

In 2013, the Board revised the CEO employment agreement to allow for an effective CEO retention and succession process over the next three years. The restated and amended CEO employment agreement provides for (a) a fixed term with an option for renewal at the sole discretion of the Board of Directors, (b) a reduction in the amount and term of severance payments and benefits at the end of each completed service year over the term of the agreement, (c) an indexed increase in the retirement benefit cap for each completed service year over the term of the agreement to minimize the reduction in present value at each year end, and establish a maximum value of \$900,000 in the last year of the agreement, and (d) eligibility for incentive payments totaling \$2,000,000 paid in installments over the term of the agreement based on the achievement of certain additional performance and retention objectives as established and measured by the Board of Directors.

To receive payments and other benefits under the employment agreements, the officer must sign a release agreeing to give up any claims, actions or lawsuits against the Bank that relate to his or her employment with the Bank.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Retirement Benefits

### Overview

We have employer-funded qualified defined benefit pension plans, which are noncontributory and cover employees hired prior to January 1, 2007. Depending on the date of hire, benefits are determined either by a formula based on years of service and final average pay, or by the accumulation of a cash balance with interest credits and contribution credits based on years of service and eligible compensation. We also have noncontributory, unfunded, nonqualified supplemental executive retirement plans (SERPs) covering all but three senior officers employed at December 31, 2013, as well as specified other senior managers. In addition, as more fully discussed below, we have a noncontributory, unfunded nonqualified executive retirement plan (ERP) designed to provide enhanced retirement benefits to the two senior officers employed pursuant to employment agreements, including the CEO. All employees are also eligible to participate in a 401(k) retirement savings plan, which includes employer matching contributions. Employees hired on or after January 1, 2007, receive additional, non-elective employer contributions to the 401(k) retirement savings plan. All retirement-eligible employees, including senior officers, are also currently eligible for other postretirement benefits, which primarily include access to health care benefits. Substantially all participants pay the full premiums associated with the postretirement health care benefits.

### Defined Benefit Pension Plans

Senior officers hired prior to January 1, 2007 are participants in the defined benefit pension plans. Pursuant to these plans, the benefits, including those of the CEO, are determined based on years of service and final average pay. Eligible compensation for senior officers, as defined under the final average pay formula, is the highest 60 consecutive-month average, which includes salary and incentive compensation measured over a period of one year or less, and excludes long-term incentive awards, expense reimbursements, taxable fringe benefits, relocation allowance, short- and long-term disability payments, nonqualified deferred compensation distributions, lump sum vacation payouts and all severance payments. Retirement benefits for senior officers are calculated assuming payment in the form of a single life annuity with five years certain and retirement at age 65. However, the actual form and timing of retirement benefit payments are based on participant elections. The plans require five years of service to become vested. All senior officers participating in the defined benefit pension plans have been employed for more than five years and, as such, are fully vested in the plans. The benefit formula is the sum of 1.5 percent of eligible compensation up to Social Security covered compensation plus 1.75 percent of eligible compensation in excess of Social Security covered compensation, multiplied by the years of eligible benefit service. Social Security covered compensation is the 35 year average of the Social Security taxable wage bases up to the participant's Social Security retirement age.

Federal laws limit the amount of compensation we may consider when determining benefits payable under the qualified defined benefit pension plans. We maintain SERPs that pay the excess pension benefits that would have been payable under our qualified defined benefit pension plans.

### Executive Retirement Plan

As noted previously, an ERP has been adopted for the CEO and one of the other senior officers subject to their respective employment agreements. The CEO's agreement provides for a retirement benefit of 50 percent of eligible compensation as of December 31, 2013, with no reduction for early retirement, but subject to a maximum benefit amount. The ERP is limited such that benefits provided under that plan are payable only if total retirement benefits payable per year from the three retirement plans do not exceed the indexed retirement benefit cap, expressed as a single life annuity with five years certain. The ERP is integrated with the existing final average pay defined benefit retirement plan and the existing SERP. It provides the required additional retirement benefits to the extent such benefits are not covered by the other two plans, but only up to the maximum total retirement benefits noted above. If benefits exceed this maximum, no benefits are payable from the ERP. In the event of the death of the CEO during the term of his employment with the Bank, the plan provides a death benefit to a surviving spouse equal to the minimum retirement benefit described above. The benefits provided to the other senior officer under the ERP are the same as those provided to the CEO, but at reduced levels.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Nonqualified Deferred Compensation Plan

We have a nonqualified deferred compensation plan that allows senior officers and other eligible senior managers to defer all or a portion of their incentive compensation. Additionally, the Bank makes contributions to this plan on behalf of participants whose benefits under the 401(k) retirement savings plan are limited due to federal tax laws. Contributions are made at the same percentages as available under the 401(k) retirement savings plan. The compensation that is deferred is invested in any number of investment options selected by the participants. These investment options are either identical or substantially similar to those available to all participants in the Bank's 401(k) retirement savings plan. The participant is subject to all risks and returns of amounts invested. The election to defer is irrevocable and the deferred amounts cannot be paid except in accordance with specified elections as permitted by law. At that time, the participant will receive payment of the amounts credited to his or her account under the plan in a manner that has been specified by the participant. If a participant dies before the entire amount has been distributed, the undistributed portion will be paid to the participant's beneficiary.

## **Compensation Risk Management**

The Committee considers potential risks when reviewing and approving compensation programs. The Board of Directors approves the total compensation philosophy and programs to ensure there is a proper balance and alignment between the overall acceptable risk profile of the Bank and the manner in which prudent risk taking is reflected in the design of the underlying program. We have designed our compensation programs, including our incentive compensation plans, with specific features to address potential risks while rewarding employees for achieving short-term and long-term financial and strategic objectives through prudent business judgment and appropriate risk taking. The objective is to motivate employees to take prudent risk within Board-approved parameters while ensuring employees are also accountable for the long-term outcomes of their actions. The following elements have been incorporated in our compensation programs available for our senior officers:

- *A Balanced Mix of Compensation Components* – The target compensation mix for our senior officers is composed of salary, short-term incentive, long-term incentive and retirement benefits, representing a mix that is weighted toward long-term performance and service with CoBank.
- *Multiple Performance Factors* – Our incentive compensation plans include balanced scorecards of organization-wide financial performance and integration with individual performance assessments through our performance management system.
  - Incentive plans include a Board-determined subjective evaluation of our achievement of strategic objectives
  - The short-term incentive is dependent on multiple performance metrics, including a subjective measure of performance against strategic business objectives and an assessment of individual performance
  - The long-term incentives are cash-based, with three-year performance metrics to complement our annual short-term incentives
  - Board of Directors retains the right to adjust performance factors
  - Targets and ranges of performance for each metric are approved by the Board of Directors prior to the beginning of the performance period
- *Multiple Year Performance Measurement* – Our long-term incentives include a three-year performance measurement period that requires sustained corporate performance complemented by required minimum level of shareholder return in order for the plan to be fully funded.
- *Caps on Incentive Payments* – Our incentive compensation plan payments are subject to caps that limit the maximum award that may be paid.
- *Minimum Performance Requirements for Each Metric* – Our incentive compensation plan payments are contingent upon achieving minimum performance levels for each financial performance goal.
- *Minimum Individual Performance Requirements* – Our incentive compensation plans require a minimum individual performance level before a payment may be made for any given performance year.
- *Compensation Committee Discretion* – The Committee subjectively evaluates the Bank's achievement of strategic business objectives and approves all incentive plan funding following a review of the Bank's performance against plan performance criteria established and approved prior to the beginning of the incentive plan performance period.
- *Shareholder Return* – A minimum return on active patron stock investment must be achieved for incentive compensation payments to be approved.



# Senior Officers Compensation Discussion and Analysis

## CoBank, ACB

Effective January 1, 2013, the Board of Directors approved an incentive compensation recovery (“clawback”) policy to encourage the highest ethical standards, to further ensure incentive plans do not encourage excessive risk-taking and to ensure the alignment of compensation with accurate financial data. The policy provides that in the event of a restatement of the financial statements, the Bank may seek recovery from members of the Bank’s Management Executive Committee of incentive compensation and non-qualified retirement benefits that would not otherwise have been paid if the correct financial information had been used to determine the amount payable. The Board of Directors may only seek recovery or reduction of compensation under this policy within the three year period following the date the Bank filed the incorrect report.

Additionally, the Compensation Committee annually considers an assessment of compensation-related risks for all of our employees. The assessment includes a review of multiple facets of our compensation program including governance practices, program documentation, incentive plan design, processes, employment practices, benefits program, and cultural considerations. Reviews of various aspects of our programs are also conducted by independent auditors, whose reports are provided to our Board of Directors. Based on this assessment, the Compensation Committee concluded that our compensation plans do not create risks that are reasonably likely to have a material adverse effect on CoBank. In making this conclusion, the Compensation Committee reviewed the key design elements of our compensation programs in relation to industry “best practices” as presented by the Consultant, as well as the design features and administrative processes that mitigate any potential risks, such as through our internal controls and oversight by management and the Board of Directors. In 2012 and 2013, as previously discussed, compensation program design changes were made to further ensure incentive plans do not encourage excessive risk-taking.

At the request of the Board of Directors, the CEO elected to receive retirement benefits payable from the SERP and ERP in the form of an annuity, as opposed to a lump sum. The Committee believes this arrangement enhances the focus on overall risk management and the long-term success of the Bank.

# Senior Officers Compensation Discussion and Analysis

CoBank, ACB

## Summary Compensation Table

The following table summarizes compensation earned by our CEO and aggregate compensation of other senior officers for the years ended December 31, 2013, 2012 and 2011. The 2012 period also includes compensation earned by the one highly compensated employee who subsequently left the Bank. Our current Board policy regarding reimbursements for travel, subsistence and other related expenses states that all employees, including senior officers, shall be reimbursed for actual reasonable travel and related expenses that are necessary and that support our business interests. A copy of our policy is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request.

Summary Compensation Table<sup>(1)</sup> (\$ in Thousands)

Name of Individual or Number in Group <sup>(2)</sup>	Year	Annual			Change in Pension Value <sup>(4)</sup>	Deferred/ Perquisites <sup>(5)</sup>	Other <sup>(6)</sup>	Total
		Salary	Short-Term Incentive Compensation <sup>(3)</sup>	Long-Term Incentive Compensation <sup>(3)</sup>				
CEO:								
Robert B. Engel	2013	\$ 859	\$ 1,435	\$ 1,843	\$ (89)	\$ 149	\$ 333	\$ 4,530
Robert B. Engel	2012	775	1,256	1,596	1,127	208	-	4,962
Robert B. Engel	2011	662	1,676	1,301	1,636	113	-	5,388
Aggregate Number of Senior Officers (excluding the CEO):								
9	2013	\$ 2,828	\$ 3,123	\$ 2,012	\$ 1,037	\$ 1,231	\$ 1,354	\$ 11,585
9	2012	2,827	2,867	1,855	4,162	723	2,060	14,494
7	2011	2,078	3,208	1,428	2,212	407	-	9,333

<sup>(1)</sup> Disclosure of the total compensation paid during 2013 to any designated senior officer is available to shareholders of CoBank and of our affiliated Farm Credit Associations upon request. Compensation amounts do not include earnings on nonqualified deferred compensation, as such earnings are not considered above-market or preferential.

<sup>(2)</sup> The senior officers are those officers defined by FCA regulation §619.9310. The 2012 period also includes compensation information for the one highly compensated employee as defined by FCA regulation §620.6.

<sup>(3)</sup> Incentive compensation amounts represent amounts earned in the reported fiscal year, which are paid in March of the subsequent year to persons who continue to be employed by CoBank or unless otherwise provided for in an employment agreement. The short-term incentive compensation amounts are calculated based on relevant performance factors for the reported fiscal year, while the long-term incentive compensation amounts are calculated based on the relevant performance factors for the three-year performance period ended in the reported fiscal year.

<sup>(4)</sup> The Change in Pension Value for the senior officer group (excluding the CEO) increased in 2012 primarily due to the final compensation level and the form of pension benefit payment elected by a senior officer who retired in 2012.

<sup>(5)</sup> Represents company contributions to a qualified retirement savings plan and nonqualified deferred compensation plan, as well as payment of tax return preparation and financial planning expenses, relocation, certain travel-related costs, wellness benefits, life insurance benefits and associated income tax impact. For 2013 and 2012, also includes the Board-approved payout of vacation over a certain threshold that was earned but not used due to exceptional work demands.

<sup>(6)</sup> For 2013, \$333 represents amount paid to the CEO for achievement of certain additional performance objectives as established and measured by the Board of Directors. Also for 2013, \$1,354 includes \$185 for sign-on payments for two officers who joined the Bank in 2012 and 2013; \$185 for payments that were awarded by U.S. AgBank and assumed by CoBank as a result of the merger; and \$984 that represents amounts paid to two senior officers (who left the bank in 2013) for separation pay and certain other benefits. For 2012, includes \$1,727 paid and anticipated to be paid to the one highly compensated employee (who left the Bank in 2013) for salary, salary continuance, incentive compensation and certain other benefits, all pursuant to the terms of previous contractual agreements between the employee and U.S. AgBank; \$213 for sign-on payments for two senior officers who joined the Bank in 2011 and 2012; and \$120 for payments that were awarded by U.S. AgBank and assumed by CoBank as a result of the merger.

On October 3, 2012, FCA adopted a regulation that requires all System institutions to hold advisory votes on the compensation for all senior officers and/or the CEO when the compensation of either the CEO or the senior officer group increases by 15 percent or more from the previous reporting period. The regulation became effective December 17, 2012, and the base year for determining whether there is a 15 percent or greater increase was 2013.

On January 17, 2014, the President signed into law the Consolidated Appropriations Act which includes language prohibiting the FCA from using any funds available to “to implement or enforce” the regulation. In addition, on February 7, 2014, the President signed into law the Agricultural Act of 2014. The law directs FCA to within 60 days of enactment of the law “review its rules to reflect the Congressional intent that a primary responsibility of boards of directors of Farm Credit System institutions, as elected representatives of their stockholders, is to oversee compensation practices.” FCA has not yet taken any action with respect to their regulation in response to these actions.

# Senior Officers Compensation Discussion and Analysis

## CoBank, ACB

### Pension Benefits

The following table presents certain pension benefit information by plan for the CEO and the senior officer group as of December 31, 2013.

Pension Benefits Table (\$ in Thousands)

Name of Individual or Number in Group <sup>(1)</sup>	Plan Name	Number of Years of Credited Service <sup>(2)</sup>	Actuarial Present Value of Accumulated Benefits	Payments During Last Fiscal Year
CEO:				
Robert B. Engel	CoBank, ACB Retirement Plan	13.58	\$ 465	\$ -
	Supplemental Executive Retirement Plan	13.58	3,458	-
	Executive Retirement Plan	13.58	5,338	-
Total			\$ 9,261	\$ -
Aggregate Number of Senior Officers (excluding the CEO):				
5	CoBank, ACB Retirement Plan	16.18	\$ 2,759	\$ -
	Supplemental Executive Retirement Plan	15.15	3,015	-
	Executive Retirement Plan	20.67	1,554	-
Total			\$ 7,328	\$ -

<sup>(1)</sup> The senior officers included in the pension benefits disclosure are those defined by FCA regulations §619.9310 and §620.6.

<sup>(2)</sup> For the Retirement Plan and the Supplemental Executive Retirement Plan, represents an average for the aggregate senior officer group.

# Report on Compensation

## CoBank, ACB

Members of the Compensation Committee of the Board of Directors are appointed by the Board chair in consultation with the Board officers and committee chairs. All members of the Compensation Committee qualify as independent directors as defined by Board policy.

The Compensation Committee (Committee) approves the overall compensation philosophy at the Bank utilizing an independent, Committee-appointed, executive compensation consultant, which includes establishing the compensation philosophy which guides program design including pay mix comprised of base pay, short- and long-term incentive compensation plans and employee benefits. In so doing, the Committee has developed and implemented compensation policies and programs that support the Bank's core values and links compensation to overall Bank and individual performance, ensuring a proper balance with the risk profile of the Bank, thereby contributing to the value of the shareholders' investment in the Bank.

The Committee is responsible for establishing the performance standards for the Chief Executive Officer and the compensation structure for other Bank associates. The Committee reviews the Board's performance evaluation of the Chief Executive Officer, approves an overall performance rating, and recommends for full Board approval all aspects of compensation (base salary, performance-based compensation including all incentives, benefits, and perquisites) for the Chief Executive Officer, consistent with the business and financial objectives of the Bank, the results achieved by the executive, Board directed performance objectives, and competitive compensation practices. The Committee carefully evaluates incentive-based compensation programs and payments thereunder to ensure they are reasonable and appropriate to the services performed by senior officers. The Committee monitors the terms and provisions of the incentive-based compensation programs for senior officers and assesses the balance of financial rewards to senior officers against the risks to the institution. The Committee carefully evaluates whether senior officer compensation, incentive, and benefit programs are designed to support the Bank's long-term business strategy and mission as well as promote safe and sound business practices. The Committee reviews the institution's projected long-term obligations for compensation and retirement benefits. The Committee operates under a written charter, adopted by the Committee and the Board of Directors, which more fully describes the Committee's responsibilities.

The Committee has reviewed and discussed the Senior Officers Compensation Discussion and Analysis with management. Based on this review and discussion, the Committee recommended to the Board of Directors, and the Board approved, that the Senior Officers Compensation Discussion and Analysis be included in the Annual Report for the year ended December 31, 2013.

Members of the 2014 Compensation Committee:

Daniel T. Kelley, Chair  
Oghi A. DeGiusti, Jr.  
David S. Phippen  
David L. Reinders  
Kevin G. Riel

March 3, 2014

# Code of Ethics

## CoBank, ACB

CoBank sets high standards for honesty, ethics, integrity, impartiality and conduct. Each year, every associate certifies compliance with the letter, intent and spirit of our Associate Responsibilities and Conduct Policy, which establishes the ethical standards of our organization, and each senior officer is required to disclose additional information. Additionally, our chief executive officer, president, chief operating officer, chief risk officer, chief credit officer, general counsel, chief financial officer and other senior financial professionals certify compliance with the letter, intent and spirit of our Code of Ethics. Our Code of Ethics supplements our Associate Responsibilities and Conduct Policy and establishes additional responsibilities specifically related to the preparation and distribution of our financial statements and related disclosures. Details about our Code of Ethics are available at [www.cobank.com](http://www.cobank.com). At your request, we will provide you with a copy of our Code of Ethics, free of charge. Please contact:

Corporate Communications Division  
P. O. Box 5110  
Denver, CO 80217  
(303) 740-4061



## Young, Beginning, and Small Farmers

### CoBank, ACB

Under the Farm Credit Act, CoBank does not have authority to lend directly to young, beginning, and small farmers. Rather, we recognize that Associations serve young, beginning, and small farmers, which we support through wholesale funding, partnering on Association programs as they deem appropriate, and completing reporting required by regulations. We believe the future of agriculture and rural America is well served when loan programs are developed by Associations to aid ambitious and capable young, beginning, and small farmers. Therefore, we have adopted a written policy that encourages the board of directors at each of our affiliated Associations to establish a program to provide sound and constructive credit and other services to young, beginning, and small farmers and ranchers and producers or harvesters of aquatic products (YBS farmers and ranchers). Each affiliated Association provides us annually with a report measuring achievement with respect to these programs for YBS farmers and ranchers. A summary of the combined reports for our affiliated Associations and certain participations CoBank purchased from Associations follows.

YBS Farmers and Ranchers (\$ in Thousands)					
	Loan Numbers		Loan Volume		
	Number	Percent of Portfolio	Dollars	Percent of Portfolio	
Loans and Commitments Outstanding at December 31, 2013:					
Young	21,290	15.47 %	\$ 5,541,470	8.86 %	
Beginning	28,917	21.02	7,614,396	12.18	
Small	50,486	36.69	7,159,446	11.45	
Gross New Loans and Commitments Made During 2013:					
Young	5,982	15.47 %	\$ 1,581,656	7.82 %	
Beginning	7,315	18.92	1,902,035	9.41	
Small	12,119	31.35	1,322,456	6.54	

### Small Farmers and Ranchers

#### Number / Volume of Loans Outstanding by Loan Size at December 31, 2013

Number / Volume	\$0 – \$50,000	\$50,001 – \$100,000	\$100,001 – \$250,000	\$250,001 and greater
Total Number of Loans to Small Farmers and Ranchers	21,582	10,942	11,985	5,977
Total Loan Volume to Small Farmers and Ranchers (\$ in Thousands)	\$ 465,757	\$ 821,144	\$ 1,914,581	\$ 3,957,964

Key definitions are as follows:

*Young Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who is age 35 or younger as of the date the loan was originally made.

*Beginning Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who had 10 years or less of experience at farming, ranching or producing or harvesting aquatic products as of the date the loan was originally made.

*Small Farmer or Rancher* – A farmer, rancher or producer or harvester of aquatic products who normally generated less than \$250,000 in annual gross sales of agricultural or aquatic products at the date the loan was originally made.

The Young, Beginning, and Small farmer and rancher categories are not mutually exclusive, therefore, certain farmers and ranchers may be classified in more than one category in the tables above.

Beyond providing appropriate wholesale lending for Association YBS farmers and ranchers programs and submitting reports to our regulator, CoBank has partnered with Associations on successful financing programs designed to attract quality farm operations, meeting the intended purpose of providing vital capital to start-up farming operations and promoting the flow of capital into rural areas. CoBank also has its own programs to serve the credit needs of agribusiness cooperatives and rural infrastructure providers of all sizes as well as rural communities using our mission-related investments authorities. CoBank has also reached out to non-traditional forms of agricultural production, such as local foods, community supported agriculture, and urban agriculture, to better understand their financing needs and provide support within the legal constraints of CoBank lending authorities.

## Unincorporated Business Entities

### CoBank, ACB

CoBank holds investments in various unincorporated business entities (UBEs), as defined by FCA regulation. We hold these investments for two primary purposes: to acquire and manage unusual or complex collateral associated with loan workouts and to make mission-related investments.

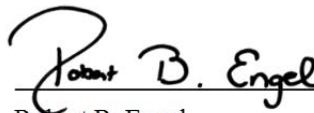
Our UBEs are displayed in the table below.

Unincorporated Business Entities			
Name	Entity Type	Level of Ownership	Scope of Activities
CoBank - Farm Credit Holdings, LLC	Limited Liability Company	100 %	Holds acquired property
Farm Credit FCB Holdings, LLC	Limited Liability Company	100	Holds acquired property
FarmStart, LLP	Limited Liability Partnership	46	Provides needed funding to operations with farm resources, farm-related expertise and good business plans, but limited access to capital in the Northeast.
Midwest Growth Partners, LLLP	Limited Liability Partnership	50	Invests in entities with operations located in rural areas in the upper Midwest that are seeking to either launch a new business, grow an existing business or recapitalize an existing business.
Ponderosa Holdings, LLC	Limited Liability Company	12	Holds acquired property
Rural America Investments, LLLP	Limited Liability Partnership	100	Holds allowable FCS investments. Currently holds the Bank's investment in FarmStart, LLP.

## CERTIFICATION

I, Robert B. Engel, Chief Executive Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this annual report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.



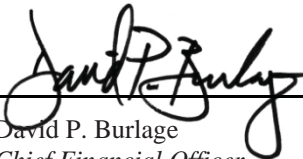
Robert B. Engel  
*Chief Executive Officer*

Dated: March 3, 2014

## CERTIFICATION

I, David P. Burlage, Chief Financial Officer of CoBank, ACB (CoBank or the Bank), a federally chartered instrumentality under the Farm Credit Act of 1971, as amended, certify that:

- (1) I have reviewed this annual report of CoBank;
- (2) Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
- (3) Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations, and cash flows of CoBank as of, and for, the periods presented in this report;
- (4) CoBank's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures and internal control over financial reporting for CoBank and have:
  - a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the Bank, including its consolidated subsidiary, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - c. evaluated the effectiveness of the Bank's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - d. disclosed in this report any change in the Bank's internal control over financial reporting that occurred during the Bank's most recent fiscal quarter (the Bank's fourth fiscal quarter in the case of this annual report) that has materially affected, or is reasonably likely to materially affect, the Bank's internal control over financial reporting; and
- (5) CoBank's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Bank's auditors and the audit committee of the Bank's Board of Directors (or persons performing the equivalent functions):
  - a. all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the Bank's ability to record, process, summarize, and report financial information; and
  - b. any fraud, whether or not material, that involves management or other employees who have a significant role in the Bank's internal control over financial reporting.

  
\_\_\_\_\_  
David P. Burlage  
Chief Financial Officer

Dated: March 3, 2014

# Senior Management

CoBank, ACB

**Robert B. Engel**, Chief Executive Officer

**Mary E. McBride**, President

**Thomas E. Halverson**, Chief Banking Officer

## *Agribusiness*

**Amy H. Gales**, Regional Agribusiness Banking Group\*

**Leili Ghazi**, Agribusiness Division – West

**Michael W. Hechtner**, Agribusiness Division – Central

**Lynn M. Scherler**, Agribusiness Division – South

**G. David Sparks**, Agribusiness Division – East

**Jonathan B. Logan**, Corporate Agribusiness Banking Group

**Karen S. Lowe**, Agricultural Export Finance Division

## *Rural Infrastructure*

**Paul A. Narduzzo**, Electric Distribution and Rural Water Banking Division

**Todd E. Telesz**, Power, Energy and Utilities Banking Division

**Robert F. West**, Communications Banking Division

## *Banking Services*

**Antony M. Bahr**, Banking Services Group

**Brian J. Klatt**, Capital Markets Division

**Michael A. Romanowski**, Farm Credit Leasing Services Corporation\*\*

**Leonard G. Sahling**, Knowledge Exchange Division

**Daniel L. Key**, Chief Credit Officer

**Michael L. Short**, Special Assets Division

**Arthur C. Hodges, Jr.**, Corporate Communications Division

**Ann E. Trakimas**, Chief Operating Officer

## *Finance*

**David P. Burlage**, Chief Financial Officer

**Timothy D. Steidle**, Treasury Division

**Michael R. Vestal**, Controller Division

## *Information Technology*

**James R. Bernstein**, Chief Information Officer

## *Legal*

**M. Mashenka Lundberg**, General Counsel

**Christian J. Clayton**, Legal and Loan Processing

## *Human Resources*

**Robert L. O'Toole**, Senior Vice President

## *Operations*

**Stephen B. Secor**, Senior Vice President

## *Regulatory and Legislative Affairs*

**L. Todd VanHoose**, Senior Vice President

**Lori L. O'Flaherty**, Chief Risk Officer

**Rodney A. Brown**, Asset Review Division

**Katia V. Hoffer**, Enterprise Risk Management Division

**Andrew D. Jacob**, Compliance

**Steven W. Wittbecker**, Internal Audit Division

**John Svisco**, Chief Business Process & Accountability Officer

**Joseph M. Rogers**, Non-Credit Services Division

**Todd E. Wilson**, Enterprise Solutions and Services Division

\* The Strategic Relationships operating segment is included in the Regional Agribusiness Banking Group.

\*\* Farm Credit Leasing Services Corporation is included in our Agribusiness operating segment.



## Customer Privacy

*Your financial privacy and the security of your other non-public information are important to us. We, therefore, hold your financial and other non-public information in strictest confidence. Federal regulations allow disclosure of such information by us only in certain situations. Examples of these situations include law enforcement or legal proceedings or when such information is requested by a Farm Credit System institution with which you do business. In addition, as required by Federal laws targeting terrorism funding and money laundering activities, we collect information and take actions necessary to verify your identity.*

*CoBank's 2014 Quarterly and Annual Reports to Shareholders are available free of charge on request by calling or visiting one of our banking center locations and through our website at [www.cobank.com](http://www.cobank.com) on approximately May 9, 2014, August 8, 2014, November 7, 2014, and March 2, 2015 (Annual Report).*

#### COBANK NATIONAL OFFICE

5500 South Quebec Street  
Greenwood Village, CO 80111  
(303) 740-4000  
(800) 542-8072

#### FARM CREDIT LEASING SERVICES CORPORATION

600 Highway 169 South, Suite 300  
Minneapolis, MN 55426  
(952) 417-7800  
(800) 444-2929

#### WASHINGTON, D.C. OFFICE

50 F Street, N.W., Suite 900  
Washington, DC 20001  
(202) 650-5860

#### U.S. REGIONAL OFFICES

##### AMES BANKING CENTER

2515 University Boulevard, Suite 104  
Ames, IA 50010  
(515) 292-8828

##### ATLANTA BANKING CENTER\*\*

900 Circle 75 Parkway, Suite 1400  
Atlanta, GA 30339-5946  
(770) 618-3200  
(800) 255-7429  
FCL: (770) 618-3226

##### AUSTIN BANKING CENTER

4801 Plaza on the Lake Drive  
Austin, TX 78746  
(512) 483-9273

##### CALIFORNIA FARM CREDIT LEASING OFFICE\*

2345 East Earhart Avenue  
Stockton, CA 95206  
(209) 944-7478

##### ENFIELD BANKING CENTER\*\*

240B South Road  
Enfield, CT 06082-4451  
(860) 814-4043  
(800) 876-3227  
FCL: (860) 814-4049

##### FARGO BANKING CENTER

Goldmark Office Park  
1711 Gold Drive South, Suite 230  
Fargo, ND 58103  
(701) 277-5007  
(866) 280-2892

##### LOUISVILLE BANKING CENTER\*\*

1601 UPS Drive, Suite 102  
Louisville, KY 40223  
(502) 423-5650  
(800) 262-6599  
FCL: (800) 942-3309

##### LUBBOCK BANKING CENTER\*\*

5715 West 50th  
Lubbock, TX 79414  
(806) 788-3700  
FCL: (806) 788-3705

##### MINNEAPOLIS BANKING CENTER\*\*

600 Highway 169 South, Suite 300  
Minneapolis, MN 55426  
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(800) 282-4150  
FCL: (800) 444-2929

##### OHIO FARM CREDIT LEASING OFFICE\*

1220 Irmscher Blvd.  
Celina, OH 45822  
(855) 838-9961 ext. 23969

##### OMAHA BANKING CENTER\*\*

11422 Miracle Hills Drive, Suite 300  
Omaha, NE 68154-4404  
(402) 492-2000  
(800) 346-5717

##### SACRAMENTO BANKING CENTER\*\*

1478 Stone Point Drive, Suite 450  
Roseville, CA 95661  
(916) 380-3524  
(800) 457-0942  
FCL: (800) 289-7080

##### SPOKANE BANKING CENTER

1700 South Assembly Street, Suite 103  
Spokane, WA 99224-2121  
(509) 363-8700  
(800) 378-5577

##### STERLING BANKING CENTER

229 South 3rd Street  
Sterling, CO 80751  
(970) 521-2774

##### ST. LOUIS BANKING CENTER\*\*

1650 Des Peres Road, Suite 120  
St. Louis, MO 63131  
(314) 835-4200  
(800) 806-4144  
FCL: (800) 853-5480

##### WICHITA BANKING CENTER\*\*

245 North Waco  
Wichita, KS 67202  
(316) 290-2000  
(800) 322-3654  
FCL: (800) 322-6558

\* FARM CREDIT LEASING OFFICE ONLY  
\*\* FARM CREDIT LEASING OFFICE WITHIN  
THIS COBANK LOCATION

#### INTERNATIONAL REPRESENTATIVE OFFICE

10 Hoe Chiang Road  
#05-01 Keppel Towers  
Singapore 089315  
(65) 6534-5261



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